NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS
Congressional Information Service
Washington, D.C.

S. HRG. 101-376

TRANSPORTATION TRUST FUNDS

HEARING

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

SPECIAL HEARING

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE

24-333 == WASHINGTON : 1990

S181-8

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

COMMITTEE ON APPROPRIATIONS

ROBERT C. BYRD, West Virginia, *Chairman*

DANIEL K. INOUYE, Hawaii
ERNEST F. HOLLINGS, South Carolina
J. BENNETT JOHNSTON, Louisiana
QUENTIN N. BURDICK, North Dakota
PATRICK J. LEAHY, Vermont
JIM SASSER, Tennessee
DENNIS DeCONCINI, Arizona
DALE BUMPERS, Arkansas
FRANK R. LAUTENBERG, New Jersey
TOM HARKIN, Iowa
BARBARA A. MIKULSKI, Maryland
HARRY REID, Nevada
BROCK ADAMS, Washington
WYCHE FOWLER, JR., Georgia
J. ROBERT KERREY, Nebraska

MARK O. HATFIELD, Oregon
TED STEVENS, Alaska
JAMES A. McCLURE, Idaho
JAKE GARN, Utah
THAD COCHRAN, Mississippi
ROBERT W. KASTEN, JR., Wisconsin
ALFONSE M. D'AMATO, New York
WARREN RUDMAN, New Hampshire
ARLEN SPECTER, Pennsylvania
PETE V. DOMENICI, New Mexico
CHARLES E. GRASSLEY, Iowa
DON NICKLES, Oklahoma
PHIL GRAMM, Texas

JAMES H. ENGLISH, *Staff Director*
MARY S. DEWALD, *Chief Clerk*
J. KEITH KENNEDY, *Minority Staff Director*

SUBCOMMITTEE ON TRANSPORTATION AND RELATED AGENCIES

FRANK R. LAUTENBERG, New Jersey, *Chairman*

ROBERT C. BYRD, West Virginia
TOM HARKIN, Iowa
JIM SASSER, Tennessee
BARBARA A. MIKULSKI, Maryland

ALFONSE M. D'AMATO, New York
ROBERT W. KASTEN, JR., Wisconsin
PETE V. DOMENICI, New Mexico
CHARLES E. GRASSLEY, Iowa
MARK O. HATFIELD, Oregon
ex officio

Professional Staff
PATRICK J. McCANN
DON KNOWLES
ANNE M. MIANO (Minority)
Administrative Support
JOYCE C. ROSE

CONTENTS

CONGRESSIONAL BUDGET OFFICE

	Page
Statement of W. David Montgomery, Assistant Director for Natural Resources and Commerce	1
Prepared statement of W. David Montgomery	4

GENERAL ACCOUNTING OFFICE

Statement of Vic Rezendes, Associate Director, Division of Resources, Community and Economic Development	13
Prepared statement of Victor S. Rezendes	16
Prepared statement of Hon. Alfonse M. D'Amato, U.S. Senator from New York	26
Submitted questions	41

MATERIAL SUBMITTED SUBSEQUENT TO CONCLUSION OF HEARING

Letter from John L. Baker, President, Aircraft Owners and Pilots Association.	56
Prepared statement of Dr. T. Peter Ruane, President and CEO, American Road and Transportation Builders Association	57
Prepared statement of Robert L. Turner, President, Associated Builders and Contractors	64
Prepared statement of the Associated General Contractors of America	66
Prepared statement of the Highway Users Federation	69
Prepared statement of Ross Capon, Executive Director, National Association of Railroad Passengers	74

TRANSPORTATION TRUST FUNDS

THURSDAY, MAY 11, 1989

U.S. SENATE,
SUBCOMMITTEE ON TRANSPORTATION
AND RELATED AGENCIES,
COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:09 a.m. in room SD–138, Dirksen Senate Office Building, Hon. Frank R. Lautenberg (chairman) presiding.

Present: Senators Lautenberg, Byrd, D'Amato, Kasten and Grassley.

CONGRESSIONAL BUDGET OFFICE

STATEMENT OF W. DAVID MONTGOMERY, ASSISTANT DIRECTOR FOR NATURAL RESOURCES AND COMMERCE

ACCOMPANIED BY MARK R. DAYTON, ASSOCIATE ANALYST, PUBLIC INVESTMENT UNIT

OPENING REMARKS

Senator LAUTENBERG. Good morning.

We will call the Subcommittee on Transportation of the Appropriations Committee to order.

I welcome our witnesses.

The subcommittee will be hearing today from CBO, the Congressional Budget Office, and GAO, the General Accounting Office.

We have asked these two agencies to look at the transportation trust funds, their financial health, their effect on the Federal deficit, and the effects of moving these trust funds off-budget.

Because the two major transportation funds have cash balances, they are favorite targets of those who would like to increase their spending on existing programs or expand their portfolios to take on additional responsibilities. The current debate over who should pay for costly aviation security equipment is a case in point.

But these cash balances do not tell the whole story. There are very good reasons why these balances exist. We have tried through previous hearings and bill report language, as have our counterparts in the House, to explain the Appropriations Committee's stewardship of these trust funds. I do not believe, however, that those who should be listening are doing so. Through the medium of this hearing, we are going to try once again to get out the word.

There are many misconceptions regarding the transportation trust funds: how they operate, the financial mechanisms that control them, and their economic well being.

There is the impression that these funds are awash in cash; that we are not spending the money, that we are hoarding it in some way. The fact is, these funds are not unlike an individual's checking account before the bills come in at the end of the month. But when the bills come due for future infrastructure needs, these trust funds are going to be short of money.

There is the impression that the people who are paying user fees are not getting what they paid for. The fact is that they get what they paid for, and they get more, in fact. The general taxpayer is supplementing the trust fund, especially in the aviation area.

So today, we are going to deal with these misconceptions straightaway. The facts need to be heard before anyone considers revamping the trust funds, adjusting the user fees, or removing them from the Federal budget.

There are conflicting views regarding these matters, and I recognize that. So the committee is going to hold the record open for a couple of weeks to receive testimony from other parties interested in these funds, as well as for responses to questions, which will have been submitted in writing.

We have both CBO and GAO at the witness table at the same time. And we would ask CBO to give their testimony first. We welcome you and await your delivery.

STATEMENT OF W. DAVID MONTGOMERY

Mr. MONTGOMERY. Thank you, Mr. Chairman.

I am very happy to be here today to present the Congressional Budget Office's analysis of the transportation trust funds and their effects on the Federal budget process.

I am David Montgomery. I am Assistant Director for Natural Resources and Commerce, and I am accompanied by Mr. Mark Dayton of my staff.

I have submitted a detailed statement for the record. I will just mention a few of the major points from that statement, and I brought along a few charts to illustrate them.

OVERVIEW

As you are well aware, there are five transportation trust funds: Highways, which includes highway and transit accounts; airports and airways; aquatic resources, which are of interest because of the boat safety account; harbor maintenance; and inland waterways.

In each case, certain taxes are collected from users of these transportation systems; they are credited to the trust funds, and some financing for each system is provided from the trust funds. The purposes for which trust fund money can be spent are restricted by authorizing legislation, and in each case, are subject to appropriations.

Because of these restrictions and because appropriation action is required and has been taken carefully before trust fund revenues can be committed, the unexpended balances in these trust funds are growing.

This first board shows that CBO estimates that fiscal year 1989 will end with a $29 billion unexpended balance in the five funds.

Under current policies, the transportation trust funds will continue to build unexpended balances in the 1990 to 1994 time period.

A cut is coming up in aviation excise taxes in our baseline projections for reasons that I will explain later. Assuming that the reduction in the tax revenues occurs, receipts will still exceed outlays from these funds by $7 billion during the 1990–1994 period, leading to $36 billion in the funds in unexpended balances by 1994. Without the aviation tax cuts, tax revenues would be $10 billion higher than by 1994. But this is certainly not all of the story, as your opening remarks indicated.

The second board, which I will display, shows that not all of this increase in the balances is the result of taxes paid by users of the transportation system. A significant portion comes from interest that is credited to the trust fund accounts by the Treasury. Indeed, if we add up all of these interest credits to the trust funds over the 1990–94 time period, we see that they are larger than the increase in the unexpended balances.

The third board comes to the major point about these trust funds and their usefulness for the budget process and thinking about transportation spending.

The trust fund tax revenues provide only a part of the Federal money, which is spent on these transportation systems. The difference is made up by the general fund, which provides a major share for all transportation systems except highways and boating safety. Therefore, the existence of the unexpended balances in these funds does not mean that users, who pay specific taxes earmarked for the trust funds, are being shortchanged. The reverse is true. Total spending has exceeded trust fund tax revenues and is expected to continue to do so.

To give a different perspective, trust funds are projected to provide virtually all of the highway spending. Only about one-half of aviation outlays, however, comes from the trust funds, only about one-quarter of harbor spending, and only 10 percent of inland waterways spending. The rest comes from general funds.

Moreover, the existence of uncommitted balances and unexpended balances does not mean that transportation spending can be increased without affecting the deficit. In the unified budget, what matters for the deficit is how much money comes into the Treasury and how much money goes out from it. It does not matter at all how internal accounts segregate that money once it is in the Treasury.

Therefore, a cut in aviation excise taxes is going to increase the deficit, just as a cut in the capital gains tax rate would. An increase in gasoline taxes would reduce the deficit, just as an increase in any other tax revenues would.

The same thing is true on the outlay side. If we were to increase spending above the baseline for highways or airways, it would increase the deficit, just the same as any other increase in spending would.

In light of these observations, it might appear that trust funds do more to obscure than to illuminate some of the information we need for setting transportation priorities. For example, trust funds

can be useful as means of carrying out a decision that the beneficiaries of certain programs should provide some or all the financing for these programs. Trust funds serve this function when they keep track of receipts from earmarked taxes and account for what is spent on the applicable programs. But when financing for these programs also comes from general funds, trust funds lose a lot of their value as accounting tools. The trust fund surplus then tells us nothing about the relationship between earmarked tax receipts and total spending on these programs.

PREPARED STATEMENT

Let me conclude my initial observations at this point. A number of other points that are covered in the prepared testimony, and I will be pleased to answer your questions.

Thank you.

Senator LAUTENBERG. Thank you very much.

[The statement follows:]

STATEMENT OF W. DAVID MONTGOMERY

Thank you, Mr. Chairman. I am pleased to be here today to present the Congressional Budget Office's (CBO's) analysis of the transportation trust funds and their effects on the Federal budget process.

The following four points summarize CBO's baseline projections for the transportation trust fund programs:

First, under baseline projections, both the unexpended balances in each of the funds and total uncommitted balances for the funds will grow in the 1990–1994 period;

Second, the trust funds will finance only a portion of total projected Federal outlays in each transportation area in the 1990–1994 period;

Third, changes in revenue or spending for transportation will have the same effect on the Federal deficit whether they occur in trust fund or general fund programs. In particular, the existence of uncommitted balances does not mean that spending can be increased without increasing the deficit; and

Fourth, trust fund financing may have a tendency to affect budget priorities in the funding of transportation programs.

My remarks today will focus more closely on CBO's projections for the trust funds and the effects these funds have on transportation budgeting. I will close my testimony with a few observations on some emerging issues in infrastructure finance.

GROWTH IN THE TRUST FUND BALANCES

Under current policies, the transportation trust funds will continue to build unexpended balances in the 1990–1994 period and, according to CBO's projections, these balances will increase by more than $7 billion from a total of about $29 billion in 1989 to more than $36 billion by 1994. The largest increases, by far, will occur in the Highway Trust Fund, which is divided into highway and transit accounts. The transit account would grow by more than $5 billion, while the highway account would grow by nearly $1 billion. The remaining projected cash growth of a little more than $1 billion is spread fairly evenly among the other trust funds.

The CBO baseline projection of outlays is constructed to maintain real spending from the current budget year through the end of the projection period. We make the projections in this way by inflating current appropriations and estimating the spending that would result The revenue projections are based on tax rates in current law and on CBO's economic forecasts. The baseline, therefore, serves only as a benchmark and is not a forecast or an estimate of what actual spending or balances will be. Table 1 summarizes our baseline projections for the 1990–1994 period. In addition, the Appendix to my testimony includes tables showing the baseline projection for each trust fund.

As Table 1 indicates, the Airport and Airway Trust Fund is a special case: according to CBO's projections, its unexpended balance would increase by the same order of magnitude as the Highway Trust Fund were it not for the tax rate reduction that will occur on January 1, 1990. Tax revenue to this fund would increase by more

than $10 billion if the tax rate reduction were eliminated, and the unexpended balances would reach nearly $26 billion in 1994.

Tax revenue and outlays for the Aquatic Resources and Inland Waterways trust funds will be roughly in balance under our projections; most of the growth in their balances stems from interest paid by the general fund on cash balances built up in the past. The Harbor Maintenance Trust Fund balance will start growing significantly in the later years of the projection period. In those years, tax revenues will outstrip the 40 percent contribution of the trust fund to harbor maintenance, as set forth in law, and interest earnings will compound this excess of revenue over outlays.

TABLE 1. BASELINE RECEIPTS, OUTLAYS, AND BALANCES FOR TRANSPORTATION TRUST FUNDS

[By fiscal year, in billions of dollars]

Transportation trust funds	Unexpended balance end of year 1989	Total receipts [1] 1990–94	Total outlays 1990–94	Change in unexpended balance 1990–94	Unexpended balance end of year 1994
Airport and airway	12.9	18.4	18.0	0.4	13.3
Aquatic resources	0.5	1.5	1.2	0.3	0.7
Harbor maintenance	([2])	1.1	1.0	0.2	0.2
Highway:					
Highway account	8.9	74.9	74.0	0.9	9.8
Transit account	6.2	10.8	5.4	5.4	11.6
Inland waterway	0.4	0.5	0.3	0.2	0.6
Total	28.8	107.3	100.0	7.4	36.2
Airport and airway without tax rate reduction [3]	12.9	30.8	18.0	12.8	25.7
Total [4]	28.8	119.7	100.0	19.7	48.6

SOURCE: Congressional Budget Office.

[1] This category includes both trust fund tax revenues and interest earnings on unexpended balances.
[2] Less than $100 million.
[3] The tax rates of the excise taxes that support this trust fund will be halved on January 1, 1990, according to provisions of law and CBO projections. This line shows the trust fund projections when the tax rates are not reduced.
[4] This total substitutes figures for the Airport and Airway Trust Fund without the tax rate reduction for the baseline projection of this fund; it also leaves the other trust fund numbers in the summation unchanged.

The total receipts column in Table 1 includes both excise tax revenue to the trust funds and intragovernmental transfers from the general fund of interest earned on the funds' unexpended balances. Table 2 separates these two sources of receipts. Of the total $107 billion in trust fund receipts over the 1990–1994 period, $14 billion is attributable to interest earnings and $93 billion to excise taxes.

The uncommitted balances in these funds will generally grow along with the unexpended balances. The uncommitted balance in each fund is the portion of the unexpended balance for which spending authority has not yet been enacted. Table 3 summarizes the change in the unexpended and uncommitted balances for each of the funds between 1989 and 1994 under baseline projections.

In the highway account, spending commitments are made several years ahead of tax receipts so that, even though this account has a large unexpended balance, more than this entire balance is already committed. Under baseline projections, these unfunded authorizations would remain fairly stable over the period, declining slightly from $22.7 billion to $22.2 billion. For the other transportation trust funds, the total uncommitted balance would increase by $1.6 billion

TABLE 2. BASELINE RECEIPTS OF TRANSPORTATION TRUST FUNDS, 1990–94

[By fiscal year, in billions of dollars]

Transportation trust funds	Tax revenue 1990–94	General fund interest 1990–94	Total receipts [1] 1990–94
Airport and airway	12.5	5.8	18.4
Aquatic resources	1.3	0.2	1.5
Harbor maintenance	1.1	0.1	1.1
Highway:			

TABLE 2. BASELINE RECEIPTS OF TRANSPORTATION TRUST FUNDS, 1990–94—Continued

[By fiscal year, in billions of dollars]

Transportation trust funds	Tax revenue 1990–94	General fund interest 1990–94	Total receipts [1] 1990–94
Highway account	70.8	4.1	74.9
Transit account	7.0	3.8	10.8
Inland waterway	0.4	0.2	0.5
Total	93.1	14.2	107.3
Airport and airway without tax rate reduction [2]	22.8	8.0	30.8
Total [3]	103.3	16.4	119.7

SOURCE: Congressional Budget Office.

[1] Details may not add to totals because of rounding.

[2] The tax rates of the excise taxes that support this trust fund will be halved on January 1, 1990, according to provisions of law and CBO projections. This line shows the trust fund projections when the tax rates are not reduced.

[3] This total substitutes figures for the Airport and Airway Trust Fund without the tax rate reduction for the baseline projection of this fund; it also leaves the other trust fund numbers in the summation unchanged.

TABLE 3. BASELINE UNEXPENDED AND UNCOMMITTED BALANCES IN 1989 AND 1994 FOR THE TRANSPORTATION TRUST FUND

[By fiscal year, in billions of dollars]

Transportation trust funds	Unexpended balance end of year 1989	Uncommitted balance end of year 1989	Unexpended balance end of year 1994	Uncommitted balance end of year 1994
Airport and airway	12.9	6.8	13.3	4.4
Aquatic resources	0.5	0.2	0.7	0.2
Harbor maintenance	([1])	([1])	0.2	0.2
Highway:				
Highway account	8.9	−22.7	9.8	−22.2
Transit account	6.2	2.0	11.6	5.6
Inland waterway	0.4	0.4	0.6	0.6
Subtotal (without highway account)	20.0	9.4	26.4	11.0
Total	28.8	−13.3	36.2	−11.3
Airport and airway without tax rate reduction [2]	12.9	6.8	25.7	16.8
Subtotal (without highway account) [3]	20.0	9.4	38.8	23.4
Total [3]	28.9	−13.3	48.6	1.1

SOURCE: Congressional Budget Office.

[1] Less than $100 million.

[2] The tax rates of the excise taxes that support this trust fund will be halved on January 1, 1990, according to provisions of law and CBO projections. This line shows the trust fund projections when the tax rates are not reduced.

[3] These totals substitute figures for the Airport and Airway Trust Fund without the tax rate reduction for the baseline projection of this fund; they also leave the other trust fund numbers in the summations unchanged.

WHO PAYS FOR TRANSPORTATION PROGRAMS?

Because transportation programs are now typically financed by a mix of trust fund and general fund expenditures, the trust funds do not reveal who pays for these programs. Under current policies, overall spending for transportation programs related to trust funds would far exceed trust fund tax revenues. Table 4 shows CBO's baseline projection of the trust funds' tax revenue, as well as spending by both the trust funds and the general fund on transportation programs for the 1990–1994 period.

The last column in this table shows the relationship between the total tax revenue for each trust fund and the total Federal spending for related programs. Under baseline projections, every program area except aquatic resources would receive substantially more in total Federal spending than the amount collected by its excise taxes. These excesses of outlays over revenues are led by a projected $23 billion for aviation and $12 billion for transit.

Under baseline projections, the trust funds would finance all or nearly all Federal spending for highways and boat safety but only 52 percent of aviation outlays, 29 percent of transit, 29 percent of harbor spending, and 10 percent of inland waterways. In total, the transportation trust funds would finance 73 percent of all Federal spending on these programs.

TABLE 4. BASELINE TAX REVENUES AND OUTLAYS FOR TRANSPORTATION TRUST FUNDS AND RELATED PROGRAMS, 1990–94

[By fiscal year, in billions of dollars]

	Trust fund tax revenues 1990–94	Outlays 1990–94		Total outlays 1990–94	Excess of outlays over taxes
		From trust fund	From general fund		
Aviation	12.5	18.0	17.4	35.5	22.9
Highways	70.8	74.0	0.9	74.9	4.1
Transit	7.0	5.4	13.4	18.9	11.8
Inland waterways:					
Capital	0.4	0.3	1.2	1.5	1.1
Operations	(1)	(1)	2.1	2.1	2.1
Harbors:					
Capital	(2)	(2)	0.9	0.9	0.9
Operations	1.1	1.0	1.4	2.3	1.3
Aquatic resources	1.3	1.2	(3)	1.2	(4)
Total	93.1	100.0	37.4	137.2	44.1
Aviation at full rates [5]	22.8	18.0	17.4	35.5	12.7
Total [6]	103.3	100.0	37.4	137.2	33.9

SOURCE: Congressional Budget Office.

[1] The Inland Waterway Trust Fund is not authorized to finance waterway operations and maintenance expenditures.
[2] The Harbor Maintenance Trust Fund is not authorized to finance capital expenditures of commercial harbors.
[3] The trust fund finances all outlays related to these aquatic resources programs.
[4] Less than $100 million.
[5] The tax rates of the excise taxes that support this trust fund will be halved on January 1, 1990, according to provisions of law and CBO projections. This line shows the trust fund projections when the tax rates are not reduced.
[6] This total substitutes figures for the Airport and Airway Trust Fund without the tax rate reduction for the baseline projection of this fund; it also leaves the other trust fund numbers in the summation unchanged.

The Airport and Airway Trust Fund is particularly affected by provisions of law that restrict the level of trust fund financing of operations expenditures for the Federal Aviation Administration. These provisions tie the level of funding to the obligation limits for airport grants and the appropriations for capital and research expenditures. Generally speaking, the closer these appropriations are to their authorized levels, the greater the trust fund financing of operations. Largely because of technical problems in the modernization of the airway system, appropriations for capital expenditures have lagged behind authorizations. The result has been a low proportion of FAA spending being debited to the trust fund and an accompanying rise in its accumulated surplus.

In short:

Receipts of the trust funds include both excise tax revenue designated for trust fund programs, and interest earnings on accumulated fund balances;

Outlays of the trust funds represent only part of Federal spending for the transportation programs that the trust fund taxes support; and

The divisions between trust fund and general fund support mean that balances in the trust funds do not necessarily reflect an overpayment by users, given what they receive from the general fund.

HOW TRUST FUND FINANCING AFFECTS THE DEFICIT

The existence of large unexpended balances in the trust funds has led some people to believe that an increase in trust fund financing that draws down existing trust fund surpluses would be a relatively "costless" way of increasing transportation spending without affecting the deficit. This conclusion is incorrect.

Changing transportation spending or financing would have the same effects on the deficit whether the increases or decreases in spending or taxes occurred in the trust funds or the general fund. As Table 4 shows, each program area contributes to

or reduces the deficit only to the extent that outlays exceed tax revenues or revenues exceed outlays.

As an example, suppose that the excise taxes that finance one of the funds were increased; at the same time, assume that general fund spending in that program area were to be increased and by the same amount. In this case, there would be no effect on the deficit since the change in Federal outlays would be offset by the change in revenues. However, the increased tax revenue would translate directly into higher unexpended and uncommitted balances in the trust fund. The result would be an apparently large Federal surplus in the transportation program supported by that trust fund, regardless of the overall balance between tax revenue and total Federal spending in that program area.

In a general sense, this is how the accumulated surplus in the Airport and Airway Trust Fund has developed. Total Federal outlays for aviation programs have far outstripped aviation excise tax revenue, but the portion of this spending debited to the trust fund has been less than the tax revenue, thereby resulting in accumulating surpluses.

EFFECTS ON BUDGET PRIORITIES

The trust funds tend to focus public attention on the unexpended balances in the funds instead of on the relative merits and funding levels of alternative transportation programs given the overall Federal budget constraints. Further, these balances create the perception that tax revenues are being hoarded to reduce the Federal deficit. As a result, the beneficiaries of these programs make public demands to release these trust fund resources and to increase spending on programs financed by trust funds.

Looking only at the trust fund balances is misleading as an indicator of either the appropriate overall spending level on transportation or the mix of spending among transportation programs. If additional good spending opportunities are available for transportation programs, they can be decided on their own merits, and not on available balances in the trust funds. For example, the large economic benefits gained from keeping highways in good condition suggest that increasing highway spending would be an attractive alternative regardless of the balance in the highway account.

Furthermore, efforts to draw down the trust fund balances may lead to a less efficient mix of transportation programs. Because the trust funds are generally restricted in the types of projects they can legally fund, efforts to increase transportation expenditures by increasing trust fund spending alone may affect spending decisions among programs.

The following examples illustrate these potential effects on spending decisions:

Arguments to reduce the accumulated surplus in the Airport and Airway Trust Fund by increasing spending on aviation capital and research programs ignore what others view as the critical need for additional air traffic controllers, air safety and security personnel, and funds for management initiatives, all of which are principally funded by the general fund.

Similarly, waterways can be maintained either by dredging to maintain water depths—the costs of which would be paid from the general fund—or by constructing new locks and dams to raise the water level-the costs of which would be paid, in part, by the trust fund. The choice should not depend on the source of funding.

On a more general note, the existence of large unexpended balances in the trust funds may generate efforts to expand Federal spending into new areas without the normal policy debate about the appropriateness of such a Federal role.

EMERGING ISSUES

I will conclude my remarks today with a brief discussion of some current issues in trust fund financing. First of all, the ongoing efforts to reduce Federal budget deficits will continue to affect the total level of Federal support for transportation programs whether such spending is charged against trust fund receipts or general fund revenues. Under baseline projections, transportation spending would remain well above the amount that users pay. Nonetheless, trust fund accounting would continue to show increasing unexpended balances. Therefore, while budget deficits may continue pressures to limit increases in transportation spending, the trust funds are likely to generate pressure to increase spending on the narrowly defined programs supported by the funds without regard to the merits of such increases.

Second, in recognition of the problems current trust fund accounting pose for the budget process, the Congress may wish to reconsider some fundamental issues of transportation financing, including: What the appropriate share is between user financing and general fund financing for each transportation mode or program; and,

whether it is necessary to retain separate trust funds to account for how user taxes are spent.

As to the first point, charging for the use of transportation facilities may lead to their being used more efficiently. This effect would argue for fees being set to reflect the costs that private users impose on transportation systems, including direct program costs as well as costs that spill over to other users and society in general, such as congestion and pollution. Such fees, however, would not necessarily produce revenues that matched outlays for the Federal programs. In addition to providing narrow benefits for private and commercial traffic, Federal transportation programs also provide direct benefits to other government agencies (such as the Department of Defense) and generate broad public benefits promoting policy goals. For example, the Federal Aviation Administration estimates that 85 percent of its expenditures are on behalf of private users and that the governmental and public interest share of its costs is 15 percent. User fees aimed at recovering FAA costs for private users might, therefore, set a cost recovery target of 85 percent of FAA spending; fees aimed at the efficient use of airports and airways, on the other hand, might include both a premium above FAA costs in congested parts of the system and discounts in those sectors that are underused.

Hence—and this bears on the second point-under efficiency pricing, overall cost recovery for the FAA could differ from the 85 percent attributed to private users. In such a system, maintaining separate balances of revenues and outlays through a system of trust funds would provide little useful information about the appropriate levels of user fees or spending. However, the annual accounting of program costs and revenues from fees may demonstrate whether broad cost sharing goals are being met.

Appendix Tables

TABLE A–1. BASELINE PROJECTIONS OF THE AIRPORT AND AIRWAY TRUST FUND, 1989–94

[By fiscal year, in millions of dollars]

	Actual 1988	1989	1990	1991	1992	1993	1994
TAX REVENUE DURING THE PERIOD							
Passenger ticket tax	2,815	3,224	2,418	1,902	2,069	2,245	2,438
Waybill tax	168	180	135	104	107	109	114
Fuel tax	117	101	68	54	55	57	59
International departure tax	95	107	111	119	126	133	141
Refunds	−6	−6	−4	−3	−3	−3	−3
Total, annual tax revenue	3,189	3,606	2,728	2,176	2,354	2,541	2,749
CASH OUTLAYS DURING THE PERIOD							
Federal Aviation Administration:							
Airport grants-in-aid	825	1,111	1,271	1,380	1,459	1,532	1,599
Facilities and equipment	1,043	1,049	1,182	1,282	1,393	1,494	1,563
Research, engineering, and development	170	166	174	179	183	187	195
Trust fund share of FAA operations	830	471	508	531	556	581	607
National Oceanic and Atmospheric Administration	28	29	30	31	32	34	35
Total, annual outlays	2,896	2,827	3,165	3,403	3,623	3,828	3,999
Net income before interest	293	779	−437	−1,227	−1,269	−1,287	−1,250
Interest on investments	893	1,046	1,185	1,216	1,190	1,149	1,102
Change in cash	1,185	1,825	748	−11	−79	−138	−148
TRUST FUND BALANCES							
Unexpended balance, start of year	9,935	11,120	12,945	13,693	13,682	13,603	13,465
Change in cash	1,185	1,825	748	−11	−79	−138	−148
Unexpended balance, end of year	11,120	12,945	13,693	13,682	13,603	13,465	13,316
Commitments against unexpended balance	5,279	6,096	6,780	7,421	7,938	8,422	8,914
Uncommitted balance, end of year	5,841	6,849	6,913	6,261	5,665	5,043	4,402
General fund share of FAA spending	2,324	2,945	3,171	3,329	3,483	3,644	3,809

SOURCE: Congressional Budget Office.

TABLE A–2. BASELINE PROJECTIONS OF AQUATIC RESOURCES TRUST FUND, 1989–94

[By fiscal year, in millions of dollars]

	Actual 1988	1989	1990	1991	1992	1993	1994
RECEIPTS DURING THE PERIOD							
Motorboat fuels tax	106	114	118	122	126	130	135
Excise taxes on sport fishing equipment	80	81	85	88	91	95	99
Import duties on tackle and yachts	22	47	29	31	33	36	38
Total, annual receipts	209	242	232	241	250	261	272
CASH OUTLAYS DURING THE PERIOD							
U.S. Coast Guard boat safety	49	54	57	64	67	69	72
U.S. Fish and Wildlife Service sport fish restoration	122	166	187	182	164	174	179
Land and water conservation fund transfer	1	1	1	1	1	1	1
Total, annual outlays	172	221	245	247	232	244	252
Net income before interest	36	21	−14	−7	−18	−17	−19
Interest on investments	31	38	40	43	47	52	58
Change in cash	67	58	26	36	65	69	77
TRUST FUND BALANCES							
Unexpended balance, start of year	344	411	469	496	532	596	665
Change in cash	67	58	26	36	65	69	77
Unexpended balance, end of year	411	469	496	532	596	665	742
Commitments against unexpended balance	206	290	308	341	385	440	505
Uncommitted balance, end of year	205	179	187	190	212	225	237
General fund share of boat safety and sport fish spending	0	0	0	0	0	0	0

SOURCE: Congressional Budget Office.

TABLE A–3. BASELINE PROJECTIONS OF HARBOR MAINTENANCE TRUST FUND, 1989–94

[By fiscal year, in millions of dollars]

	Actual 1988	1989	1990	1991	1992	1993	1994
RECEIPTS DURING THE PERIOD							
Harbor maintenance user fees	144	172	187	202	217	232	249
St. Lawrence Seaway tolls	10	10	10	11	11	11	12
Rebate of seaway tolls	−9	−10	−10	−11	−11	−11	−12
Total, annual receipts	145	171	187	202	217	232	249
CASH OUTLAYS DURING THE PERIOD							
St. Lawrence Seaway Development Corporation	9	13	13	14	15	15	16
Operation and maintenance commercial harbors	148	156	164	172	177	180	183
Total, annual outlays	157	169	177	186	192	195	199
Net income before interest	−12	3	10	16	25	37	50
Interest on investments	7	8	9	10	12	14	17
Change in cash	−5	11	18	26	37	51	67
TRUST FUND BALANCES							
Unexpended balance, start of year	15	10	21	39	65	102	153
Change in cash	−5	11	18	26	37	51	67
Unexpended balance, end of year	10	21	39	65	102	153	221
Commitments against unexpended balance	0	0	0	0	0	0	0
Uncommitted balance, end of year	10	21	39	65	102	153	221

TABLE A–3. BASELINE PROJECTIONS OF HARBOR MAINTENANCE TRUST FUND, 1989–94—Continued

[By fiscal year, in millions of dollars]

	Actual 1988	1989	1990	1991	1992	1993	1994
General fund share of eligible operations and maintenance spending	NA.	236	252	263	277	293	310

SOURCE: Congressional Budget Office.

NOTE: NA. = not available.

TABLE A–4. BASELINE PROJECTIONS OF THE HIGHWAY ACCOUNT OF THE HIGHWAY TRUST FUND, 1989–94

[By fiscal year, in millions of dollars]

	Actual 1988	1989	1990	1991	1992	1993	1994
TAX REVENUE DURING THE PERIOD							
Excise taxes	12,836	12,880	13,463	13,853	14,178	14,497	14,812
Total, annual tax revenue	12,836	12,880	13,463	13,853	14,178	14,497	14,812
CASH OUTLAYS DURING THE PERIOD							
Outlays	14.038	13,824	14,021	14,286	14,768	15,235	15,674
Total, annual outlays	14,038	13,824	14,021	14,286	14,768	15,235	15,674
Net income before interest	−1,201	−944	−558	−433	−590	−738	−862
Interest on investments	809	777	798	825	838	830	806
Change in cash	−392	−167	240	392	248	92	−56
TRUST FUND BALANCES							
Unexpended balance, start of year	9,412	9,020	8,853	9,094	9,486	9,734	9,826
Change in cash	−392	−167	241	392	249	92	−56
Unexpended balance, end of year	9,019	8,853	9,094	9,486	9,734	9,826	9,770
Commitments against unexpended balance	30,876	31,527	31,734	31,681	31,689	31,783	32,017
Unfunded authorizations, end of year	−21,857	−22,674	−22,640	−22,195	−21,956	−21,957	−22,247
General fund share of highway spending	176	159	175	182	190	195	200

SOURCE: Congressional Budget Office.

TABLE A–5. BASELINE PROJECTIONS OF THE TRANSIT ACCOUNT OF THE HIGHWAY TRUST FUND, 1989–94

[By fiscal year, in millions of dollars]

	Actual 1988	1989	1990	1991	1992	1993	1994
TAX REVENUE DURING THE PERIOD							
Motor Fuel Taxes	1,277	1,306	1,360	1,384	1,408	1,432	1,454
Total, annual tax revenue	1,277	1,306	1,360	1,384	1,408	1,432	1,454
CASH OUTLAYS DURING THE PERIOD							
Transit discretionary grants-in-aid	696	797	914	992	1,084	1,184	1,274
Total, annual outlays	696	797	914	992	1,084	1,184	1,274
Net income before interest	582	509	446	392	324	248	180
Interest on investments	384	493	595	689	771	843	907
Change in cash	966	1,001	1,042	1,081	1,095	1,091	1,087

TABLE A–5. BASELINE PROJECTIONS OF THE TRANSIT ACCOUNT OF THE HIGHWAY TRUST FUND, 1989–94—Continued

[By fiscal year, in millions of dollars]

	Actual 1988	1989	1990	1991	1992	1993	1994
TRUST FUND BALANCES							
Unexpended balance, start of year	4,202	5,168	6,169	7,211	8,291	9,386	10,477
Change in cash	966	1,001	1,042	1,081	1,095	1,091	1,087
Unexpended balance, end of year	5,168	6,169	7,211	8,291	9,386	10,477	11,564
Commitments against unexpended balance	3,743	4,196	4,582	4,990	5,363	5,697	6,002
Uncommitted balance, end of year	1,425	1,974	2,629	3,302	4,023	4,780	5,562
General fund share of transit spending, total	2,571	2,604	2,617	2,619	2,641	2,722	2,805
Administrative expenses	30	33	34	36	37	39	41
Research, training and human resources	19	18	16	16	15	15	14
Interstate transfer grants—transit	132	164	179	192	203	212	224
Washington Metro	185	183	185	188	194	201	212
Formula grants	1,937	2,006	2,073	2,124	2,192	2,255	2,314
Miscellaneous expired accounts	268	200	130	64	0	0	0

SOURCE: Congressional Budget Office.

TABLE A–6. BASELINE PROJECTIONS OF INLAND WATERWAY TRUST FUND, 1989–94

[By fiscal year, in millions of dollars]

	Actual 1988	1989	1990	1991	1992	1993	1994
TAX REVENUE DURING THE PERIOD							
Inland waterway fuel tax	48	50	56	67	78	90	101
Total, annual tax revenue	48	50	56	67	78	90	101
CASH OUTLAYS DURING THE PERIOD							
Construction and rehabilitation	59	63	64	66	69	72	75
Total, annual outlays	59	63	64	66	69	72	75
Net income before interest	−11	−13	−8	1	9	18	26
Interest on investments	54	29	30	30	31	32	34
Change in cash	44	16	23	30	39	50	60
TRUST FUND BALANCES							
Unexpended balance, start of year	296	339	355	378	409	448	498
Change in cash	44	16	23	30	39	50	60
Unexpended balance, end of year	339	355	378	409	448	498	558
Commitments against unexpended balance	23	NA.	NA.	NA.	NA.	NA.	NA.
Uncommitted balance, end of year	316	355	378	409	448	498	558
General fund share of eligible construction spending	NA.	201	214	224	233	243	253

SOURCE: Congressional Budget Office.

NOTE: NA. = not available.

GENERAL ACCOUNTING OFFICE

STATEMENT OF VIC REZENDES, ASSOCIATE DIRECTOR, DIVISION OF RESOURCES, COMMUNITY AND ECONOMIC DEVELOPMENT

ACCOMPANIED BY:

FRANCIS MULVEY, ECONOMIST, DIVISION OF RESOURCES, COMMUNITY AND ECONOMIC DEVELOPMENT

ALLEN LI, ASSISTANT DIRECTOR, DIVISION OF RESOURCES, COMMUNITY AND ECONOMIC DEVELOPMENT

CHARLES CULKIN, SENIOR ASSISTANT DIRECTOR, BUDGET ISSUES, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

INTRODUCTION OF ASSOCIATES

Senator LAUTENBERG. Mr. Rezendes.

Mr. REZENDES. Yes, sir.

Senator LAUTENBERG. You are going to testify on behalf of GAO, and I hope you come up with the same conclusions.

Mr. REZENDES. Yes; I would like to introduce the people who are with me today.

On my immediate right is Frank Mulvey, he is the Assignment Manager for our aviation economic analysis work; to his right is Allen Li, who is our Assistant Director overseeing our audit work on FAA's modernization efforts.

We appreciate this opportunity to testify today on the status of the major Federal transportation trust funds. While these funds currently have large, unspent balances, a large part of these balances is needed to meet existing or imminent commitments.

TRUST FUND BALANCES

The question of trust fund balances raises the larger issue of the use of the trust fund moneys to mask the size of the Federal deficit. To provide a better climate for making decisions about transportation infrastructure needs, we believe the Federal budget needs to be restructured.

Now, Mr. Chairman, I would like to discuss each fund more specifically, starting with the Highway Trust Fund.

The balance in the Highway Trust Fund account at the end of fiscal year 1988 was slightly over $9 billion. However, this balance is needed to pay outstanding commitments of $31 billion, $22 billion more than the account balance.

This is an acceptable shortfall because payments are made over several years, as States submit bills for completed work. Meanwhile, over the next 2 years, $29 billion in excise taxes will be paid into the fund.

The balance plus revenues through fiscal year 1990, therefore, will exceed outstanding commitments by $7 billion. If the program

24-333 - 90 - 2

is reauthorized, these uncommitted funds will simply be carried forward as they have in the past.

These uncommitted funds could be spent on additional commitments, but Federal Highway Administration officials told us that a prudent minimum balance of $1 to $3 billion is necessary to guard against unforeseen disruptions in the revenue flows, like those that occurred during the energy crises of the 1970's.

While the trust fund could support more commitments, the agency does not favor increasing expenditures for highway projects, because by doing so, would adversely affect the overall Federal deficit.

Now, I would like to discuss the aviation trust funds, which are devoted to airport grants and airway capital improvements, such as new radars and air traffic control towers.

Within certain limits, some trust fund moneys also can be used to cover FAA's operating expenses. That portion of FAA's operations not paid from trust fund revenues must be financed from the general fund.

The current $13 billion balance exceeds outstanding commitments by almost $7 billion, and, in that sense, the fund has a surplus. This surplus, however, is illusory. If it were not for the limitations on spending for FAA's operations, there would be no surplus. Not only is the surplus illusory, but we believe that the existing balance will be temporary.

Funding requirements to modernize the aviation system are expected to intensify over the next few years as a large number of long-delayed projects reach the implementation phase.

GENERAL FUND SUBSIDY

I would now like to discuss each of these three points.

First, the overall cap on trust fund spending for FAA's operating expenses is much less than the burden created by the system's users. If the users paid for all the costs occasioned by their use, then the trust fund would be running a deficit of more than $1 billion annually.

Almost half of FAA's operating expenses are covered by a taxpayer subsidy to aviation system users. The subsidy to private users will increase further if the trigger tax takes effect.

Unless the Congress acts, aviation excise taxes will fall by $1.2 billion in 1990, and the taxpayer subsidy will increase.

Given the current Federal budget deficit, we believe that the Congress should consider expanding the use of the fund to pay for more of FAA's operations, including work force salaries and expenses.

Second, in addition to the overall cap on spending for FAA's operation, there is also a penalty provision that further reduces this cap if congressional spending targets for capital programs are not met.

If not for this penalty clause, the trust fund, rather than general revenues, would have been used to fund $5.3 billion for FAA's operations between 1983 and 1989.

When interest on these unspent funds is added in, the impact of the penalty clause on the trust fund balance amounts to $6.8 billion, nearly the entire current surplus.

Finally, the trust fund balance is large because FAA has experienced delays in modernizing the Nation's air traffic control system. Our prior work has found that the delays have resulted primarily from unrealistic initial schedules and problems in developing new technologies.

The original $12 billion cost of modernizing the air traffic control system has risen dramatically, creating a pent up demand for future trust fund expenditures. We estimate the total cost will be $25 billion through the year 2000.

To this point, our testimony has focused on the trust fund balances. Now, Mr. Chairman, I would like to discuss trust funds in the context of the Federal budget structure.

OFF-BUDGET ISSUE

The transportation trust funds should not be taken off-budget. Exempting trust funds from the unified budget is only appropriate when the Federal Government holds the funds in fiduciary trust for others. This is not the case with the transportation trust funds.

We are concerned that creating off-budget entities to carry out Government functions, will avoid the discipline of the budget process.

On the other hand, we believe that the current budget structure, with its focus on a single deficit total, masks trust fund and non-trust fund relationships. For example, the $155 billion Federal budget deficit reported for fiscal year 1988 does not reveal that the non-trust fund deficit was actually $246 billion, offset by trust fund surpluses for that year of $91 billion.

The current budget also creates a budget bias against capital investment programs. Capital projects are at a disadvantage during budget deliberations when competing with an alternative means of financing that would lower initial costs, such as leasing, but which have significantly higher long-term costs.

This difference could lead decisionmakers to select the leasing option even though it would entail larger long-term costs without a sizable benefit of eventual ownership.

We believe that the incentives to restrict budget spending as a way of masking the Federal deficit and the resulting pressures to take trust funds off-budget could be eliminated or lessened significantly.

To do this, the current budget structure would need to be modified to distinguish between operating expenses and capital investments, and better highlight trust and enterprise activities.

Deficit goals could be established to reflect the appropriate balance between spending for operations and for capital investments. Also, budget goals could be separately tailored for trust and enterprise funds, taking into account their special requirements.

In conclusion, Mr. Chairman, while there are balances in the highway and aviation trust funds, these balances are needed to meet outstanding and imminent commitments. In the highway trust fund, current commitments exceed the fund's balance. Al-

though future revenues will produce and uncommitted balance, increasing commitments will adversely affect the overall Federal deficit.

The airport and airway trust fund currently has a surplus, primarily because trust fund spending for FAA's operations has been restricted. Future capital improvement costs, however, will place increased demands on this surplus.

Finally, we believe that the Federal budget structure needs to be restructured. With its focus on a single deficit total, the current budget creates a bias against capital investments, like those financed from the transportation trust fund, and masks trust fund and non-trust fund relationships.

PREPARED STATEMENT

Mr. Chairman, this concludes my statement. I would be glad to take any questions.

[The statement follows:]

STATEMENT OF VICTOR S. REZENDES

Mr. Chairman and Members of the Subcommittee: We appreciate this opportunity to testify on the status of the major Federal transportation trust funds—the Highway Trust Fund and the Airport and Airway Trust Fund. These funds currently have large unspent balances that highway and aviation user groups claim should be spent on additional transportation projects. Although each trust fund currently has a large balance, these balances are needed to meet existing or imminent commitments. The question of trust fund balances also raises the larger issue of the use of trust fund monies to mask the size of the Federal deficit.

To provide a better climate for making decisions about transportation infrastructure needs, we believe the Federal budget should be restructured. This restructuring would distinguish between operating expenses and capital spending for general, trust, and enterprise activities. Deficit reduction targets could then be set to correspond with the revised budget structure.

Now, Mr. Chairman, I would like to discuss the issue and each fund more specifically, starting with the Highway Trust Fund.

HIGHWAY TRUST FUND BALANCE

The Highway Trust Fund was created in 1956 to provide a mechanism for financing the federal-aid highway program. Revenues to the fund come from taxes levied on gasoline, diesel fuel, tires, and parts and accessories for trucks and buses.[1] The monies paid into the fund are earmarked primarily for the federal-aid highway program. The balance in the highway account at the end of fiscal year 1988 was slightly over $9 billion. However, this balance is needed to pay outstanding commitments of $31 billion—$22 billion more than the account balance. This is an acceptable shortfall because payments generally are made over several years as the states submit bills for completed work and revenues continue to come into the trust fund. Over the next 2 years, $29 billion will be paid into the fund. The balance plus revenues through fiscal year 1990, therefore, will exceed outstanding commitments by more than $7 billion.[2]

If the program is reauthorized these uncommitted funds will simply be carried forward as they have been in the past. We expect that the program will be reauthorized, but to see whether there is a surplus in the highway account, assume the program is not reauthorized. No new projects would be authorized after 1991, and trust fund revenues would end after 1993. Then, total revenues would exceed total

[1] Since 1982, 1 cent of the 9 cents per gallon tax on gasoline has been earmarked for mass transit. The Highway Trust Fund, therefore, has two accounts, a highway account and a mass transit account.

[2] Based on FHWA's estimates of future obligation ceilings as provided in the President's fiscal year 1990 budget.

commitments by $7.4 billion.[3] These uncommitted funds could be spent on additional commitments.

Federal Highway Administration (FHWA) officials told us a prudent minimum balance of $1 to $3 billion is necessary to guard against unforeseen disruptions in revenue flows, like those that occurred during the energy crises of the 1970's. However, these officials said that, while the trust fund could support more commitments, the agency does not favor increasing expenditures for highway projects at this time because doing so would adversely affect the overall Federal deficit.

AIRPORT AND AIRWAY TRUST FUND

The Airport and Airway Trust Fund was established in 1971. It is financed by excise taxes levied on air passengers, air cargo, and general aviation fuel. Most of the fund is devoted to airport grants and capital improvements, such as new radar and traffic control towers. Within certain limits, set by the Congress, some of the remaining money can be used to cover the Federal Aviation Administration's (FAA) operations and maintenance (O&M) expenses. That portion of FAA's O&M not paid from trust fund revenues must be financed from the general funds of the U.S. Treasury.

For almost the entire history of this trust fund, receipts have exceeded trust fund spending. The current $13 billion balance exceeds outstanding commitments by almost $7 billion, and, in that sense, the fund has a surplus.

This surplus, however, is illusory. Trust fund expenditures for O&M have been restricted since 1971. Although the Congress has allowed FAA to spend aviation user fees to cover O&M expenses since 1976, there are limits on how much can be spent for O&M—much less than the full cost of providing services to aviation system users. The maximum allowable amount for O&M costs is further reduced if spending targets for capital programs are not met. If it were not for these limitations, there would be no surplus.

Not only is the surplus illusory, but the existing balance will be temporary. Funding requirements to modernize the aviation system are expected to intensify over the next few years as a number of long-delayed projects reach the implementation stage.

I would like to expand on three points.

SUBSIDY ISSUE

First, the overall cap on trust fund spending for O&M is much less than the burden created by the system's users.[4] If the users paid for all the costs occasioned by their use, then the Airport and Airway Trust Fund would be running a deficit of more than $1 billion annually.

The Congressional Budget Office recently concluded that private aviation (commercial and general) operations are responsible for about 85 percent of the costs of FAA's aviation programs, while public aviation (primarily military) operations are responsible for the remaining 15 percent. In 1988, if private sector users were to support 85 percent of total FAA spending, the trust fund would have paid almost three-fourths of FAA's O&M expenses. The actual proportion was slightly more than one-fourth. Therefore, almost one-half of FAA's O&M expenses were covered by a taxpayer subsidy to aviation system users.[5]

The subsidy to private users will increase further if the trigger tax provision of the Airport and Airway Safety and Capacity Expansion Act of 1987 takes effect. While the spending cap limits trust fund outlays for FAA's O&M costs, the trigger tax provision reduces aviation trust fund taxes and, therefore, income to the trust fund, by 50 percent, if capital spending fails to meet congressional targets.[6] Unless

---

[3] *Highway Trust Fund: Condition and Outlook for the Highway Account* (GAO/RCED–89–136, May 1989).

[4] Trust fund spending for O&M is currently capped at an amount equal to 50 percent of the total amounts available for airport grants, facilities and equipment, and research and development.

[5] Congressional Budget Office, *The Status of the Airport and Airway Trust Fund,* Washington, D.C., Dec. 1988.

[6] The trigger provision reduces aviation excise taxes by 50 percent if the sum of the obligation limits for airport grants and appropriations for facilities and equipment acquisition and research and development for 1988 and 1989 is less than 85 percent of the total amounts the Congress authorized.

the Congress acts, aviation excise taxes will fall by $1.2 billion in 1990, and the taxpayer subsidy will increase.

We believe that the Congress should consider eliminating the restrictions on spending for FAA's O&M costs. Over time, the aviation community has agreed to finance an ever larger portion of O&M. We support this direction. We believe that users should bear their share of the cost of operating the aviation system. Given the current Federal budget deficit and the strains on the nation's aviation system resources, we believe the Congress should give serious consideration to the recent recommendation of the President's Commission on Aviation Safety to expand the use of the fund to pay for more of FAA's operations, including work force salaries and expenses.

PENALTY CLAUSE

Second, in addition to the overall cap on spending for FAA's O&M, there is also a penalty provision that reduces the maximum amount that can be spent for O&M in proportion to any shortfall in spending on capital programs.[7] If not for this penalty clause, the trust fund, rather than general revenues, would have been used to fund $5.3 billion for FAA operations between 1983 and 1989. When interest on these unspent funds is added in, the impact of the penalty clause on the trust fund balance amounts to $6.8 billion—nearly the entire current surplus.

To the extent that spending out of the trust fund for FAA's O&M costs has been limited, the shortfall has been made up by payments from the general fund, resulting in what amounts to a subsidy by the general taxpayers to aviation system users.

NATIONAL AIRSPACE SYSTEM PLAN IMPACTS

Finally, the trust fund balance is large because FAA has experienced delays in modernizing the nation's air traffic control system. Our prior work has found that the delays have resulted primarily from unrealistic initial schedules and problems in developing new technologies.[8] System development delays are related to FAA's underestimating (1) the complexity of highly automated systems, (2) the time needed to develop system software, and (3) the interdependencies among systems.

In addition, contractors have been unable to perform on schedule. For example, in the case of the $511 million Flight Service Station project, computers had to be stored for several years because the required software was not ready. Other major systems whose schedules suffered because of contractor delivery problems include the $5 billion Advanced Automation System, the $786 million Voice Switching and Control System, and the $489 million Mode S Communications System. These and other problems have led to the accumulation of unspent balances in the trust fund.

The cost of modernizing the air traffic control system has risen dramatically, creating a pent-up demand for future trust fund expenditures. FAA estimates that it will cost $4 billion more than the original $12 billion planned to complete the program. We believe that total air traffic control modernization costs are even greater. In November 1988 we estimated that, if the costs of all associated projects to modernize the system are included, the total cost will be about $25 billion through the year 2000.[9] More recently, information provided by FAA's Systems Engineering and Integration Contractor identified even greater costs—some $27 billion, over that same period.

RESTRUCTURING THE FEDERAL BUDGET

To this point, our testimony has focused on the trust fund balances. Now, Mr. Chairman, we would like to discuss trust funds in the context of the Federal budget structure.

Proponents of increased trust fund spending for capital improvement projects have recommended taking the transportation trust funds off-budget or, if they remain on-budget, exempting them from Gramm-Rudman-Hollings sequestering. There have also been proposals to use the balances in the funds to set up revolving loan funds. However, all proposals to increase spending by "freeing up" the trans-

---

[7] In the Airport and Airway Safety and Capacity Expansion Act of 1987, the penalty clause reduced the amount of FAA's operating costs that could be covered by the trust fund by $2.50 for each $1.00 that appropriations for airports, facilities and equipment acquisition, and research and development fell below the levels the Congress authorized.

[8] *Issues Related To An Independent FAA,* (GAO/T-RCED-88-45, June 2, 1988).

[9] *Air Traffic Control: Continued Improvements Needed in FAA's Management of the NAS Plan* (GAO/RCED-89-7, Nov. 10, 1988).

portation trust funds ignore the central point that there is only one overall Federal budget. They also overlook the fact that the monies are needed to meet existing or imminent commitments. Because the congressional budget process sets limits on budget authority and outlays by budget programs, increased spending out of the transportation trust funds would increase pressure to cut spending elsewhere in order to reduce the deficit.

We believe that trust funds should be excluded from the unified budget only in cases where the Federal Government holds the funds in a fiduciary trust for others, the customary meaning of a trust fund.[10] This is not the case for the transportation trust funds. We are concerned that creating off-budget entities to carry out governmental functions will avoid the discipline of the budget process. Such entities can be a serious threat to the integrity of the government's budget and financial management systems. If off-budget accounts are allowed to proliferate, they will produce to grave doubts about the credibility of the government's reports on its financial operations and condition. Reduced credibility will make it even more difficult for decisionmakers and the public to understand and deal meaningfully with the overriding problem of the budget deficit.

On the other hand, we believe that the current budget structure, with its focus on a single deficit total, masks trust and non-trust fund fiscal relationships. By restricting trust fund spending to amounts below the levels authorized and below revenues coming into the fund, the resulting surplus lowers the total Federal deficit. For example, the $155 billion total Federal budget deficit reported for fiscal year 1988 does not reveal that the non-trust fund deficit was $246 billion, offset by trust fund surpluses for the year of $91 billion. Moreover, this masking effect is becoming more pronounced over time as some trust fund surpluses soar, especially the social security trust funds. Proponents of increased trust fund spending also claim that creating trust fund surpluses to reduce the overall deficit breaks the implied agreement underlying the original trust fund tax enactment—to use the tax receipts solely for trust fund programs.

We believe that the incentives to restrict spending out of the transportation trust funds as a way of masking the deficit and the resulting pressures to take the trust funds off-budget, could be eliminated or lessened significantly. To do this, the current Federal budget's structure would need to be modified to distinguish between operating expenses and capital investments for general, trust, and enterprise activities.

The current single-number focus of Federal deficit reduction efforts is based on a highly questionable assumption—all outlays and debt are the same, whether for capital investments or operating expenses. This is not the case. Capital outlays do not immediately reduce the resource base of the government the way outlays for current operations do, because capital outlays represent asset exchanges. When outlays are made and related debts are incurred to acquire such assets as highways or runways, they produce future streams of benefits to the government and to society-at-large. Therefore, debt incurred to finance capital investments should be thought of as "capital financing" rather than as a contributor to the "deficit."

The current budget also creates a budget bias against capital investment programs; which could lead to uneconomical decisions. Because the current budget recognizes capital investment costs in the early years of a program, a proposed new investment appears more costly, on a yearly basis, than it really is. Under the present budget rules, a $50-million outlay to construct a new highway or runway in a given year contributes to the year's deficit the same as a $50-million expenditure for the government's day-to-day operations. Capital projects are at a disadvantage during budget deliberations when competing with an alternative means of financing the investment that would have lower initial costs, such as leasing, but which have significantly higher long-term costs. This difference could lead decisionmakers to select the leasing option even though it would entail larger, long-term costs without the sizable benefit of eventual ownership.

A restructured Federal budget would distinguish between operating expenses and capital investments and better highlight trust and enterprise activities. Deficit goals could be established to reflect the appropriate balance between spending for operations and for capital investments. Also, budget goals could be separately tailored for trust and enterprise funds, taking into account their special requirements.

---

[10] Statutory trust funds, such as the transportation trust funds, differ from the customary public understanding of a trust fund—money belonging to one party held by another, a trustee, acting as a fiduciary. Most trust funds in the Federal Government lack the fiduciary relationship. The beneficiaries do not own the funds and the Congress can, and often does, modify the terms of the funds.

CONCLUSIONS

In conclusion, Mr. Chairman, while there are balances in the Highway and in the Airport and Airway Trust Funds, these balances are needed to meet outstanding and imminent commitments. In the Highway Trust Fund, current commitments exceed the fund's balance. Although the current balance plus future revenues exceed outstanding commitments, increasing commitments will adversely affect the overall Federal deficit. The Airport and Airway Trust Fund currently has a surplus primarily because trust fund spending for FAA's O&M expenses has been restricted. Future capital improvement costs, however, will place increased demands on this surplus. Finally, we believe that the Federal budget needs to be restructured. With its focus on a single deficit total, the current budget creates a budget bias against capital investments, like those financed by the transportation trust funds, and masks trust and non-trust fund fiscal relationships.

This concludes my prepared statement. I would be glad to answer any questions.

BASELINE DEFINED

Senator LAUTENBERG. Thank you very much.

I come from the corporate world and am accustomed to budgeting somewhat differently, not with trust funds, obviously, although we did have some pension funds and trust funds. But the difference between capital and operating budgets is just something that, even after over 6 years here, I am still having a little bit of a problem with, frankly.

Some of these trust funds exchange in 1 year, as you mentioned in your comments, one asset for another, when that asset has a life, in some cases, of 40 or 50 years.

Mr. REZENDES. Correct.

Senator LAUTENBERG. And here we are writing it off in a year. That is a fairly heavy amortization depreciation schedule. But we will not change it this morning, maybe by tomorrow.

For Mr. Montgomery. You said that under the baseline projections, both the unexpended balances and the uncommitted balances for the transportation trust funds are going to grow. Just so we are talking in the same language, how are you defining the baseline?

Mr. MONTGOMERY. CBO develops the baseline by taking current law appropriations and inflating them. We take the current appropriations from the trust funds, inflate them given our inflation assumptions, and then spend out that money to estimate the outlays using historical spend-out patterns. Hence, we do not assume any changes in appropriation action or policies or programs.

Senator LAUTENBERG. Take the fiscal year 1989 appropriated levels.

Mr. MONTGOMERY. Right.

Senator LAUTENBERG. Add to it the forecasted rate for inflation.

Mr. MONTGOMERY. That is right.

Senator LAUTENBERG. How often is the inflation rate adjusted through the year?

Mr. MONTGOMERY. We do not. Our projections were updated recently.

Senator LAUTENBERG. Before the fiscal year begins, you estimate the inflation rate will be two, four, six, whatever you want.

Mr. MONTGOMERY. Right.

Senator LAUTENBERG. And you stay with that regardless of any change in the area. Is there any opportunity for changing that? Or I guess the baseline stands as it is.

Mr. MONTGOMERY. Yes; we estimated the baseline in January and February, based on the best possible guess we could have for inflation at that time. It really is simply a baseline for measuring changes.

Senator LAUTENBERG. Baseline to baseline is what you are saying?

Mr. MONTGOMERY. Right.

TRUST FUND DIFFERENCES

Senator LAUTENBERG. Now, how do you distinguish between the kinds of trust funds, transportation, entitlement trust funds, like Social Security and other Federal trust funds? Should the same observations be made about those as was made here this morning about transportation trust funds?

Mr. MONTGOMERY. First, the other trust funds are much larger: the Social Security, the health insurance, the unemployment insurance trust funds, have balances which are huge compared with the balances in the transportation trust funds.

The Social Security Trust Fund is technically off-budget since the Balanced Budget Act, but the surplus in the Social Security Trust Fund is counted in deciding what the Federal deficit is for purposes of Gramm-Rudman-Hollings and sequestration. These trust funds are designed to provide funding for entitlement programs.

Senator LAUTENBERG. The programs written into law?

Mr. MONTGOMERY. Yes; for the programs written into law. In those programs, spending depends on how many people meet various eligibility requirements. Funding will then occur automatically.

The contrast of entitlement programs to the transportation trust funds is quite dramatic, since in the case of the other trust funds you make appropriation decisions in each year about what will be spent out of them.

Senator LAUTENBERG. OK.

If you were able to deliver the recommendations that you made about how we account for these things, leaving them on-budget, then how do we argue to take Social Security—the difference in character—besides law, there is something else. I mean, that is that the beneficiaries, as you said in your testimony, have a fixed agreement with the fund, with Social Security, that they are entitled to it. And, therefore, those outlays are committed; there is no supplemental in there from the general treasury.

So I just want to try to refine the distinction so that those who look at this record one day will understand why we say here that we would like to keep this on the budget and in the appropriations process. We are not making the argument that is often made: Social Security belongs over there because we get $70 billion this year in false accounting benefits toward the deficit size, which is not really accurate.

Mr. REZENDES. GAO sees a very clear distinction here. We think only those trust funds where the Federal Government holds the money as a fiduciary responsibility to the recipients, should be taken off-budget. Only those funds where the recipients, the beneficiaries, actually own the money should be taken off-budget.

A good case would be in the Federal Retirement System which established thrift accounts for Federal employees where they can make contributions into those accounts. This is really the employees' money. They can withdraw it, if they choose. The Federal Government is just managing that money for the Federal employees.

The trust fund for these thrift accounts is, in fact, a fiduciary trust fund, and, by our standards, should be off-budget.

Senator LAUTENBERG. You said that transportation trust funds do not have the drawbacks that are associated with the earmarking of Government revenues. Do you want to elaborate on that a little, please?

Mr. MONTGOMERY. Yes; economists, in particular, have had a general concern about the earmarking of revenues—namely that it can reduce our flexibility, either to manage the budget in total, because those revenues are committed to spending, or it can reduce the flexibility of policymakers to respond to new demands and needs, or declining demands and needs. An earmarked set of taxes, which must be spent on particular programs, cannot easily be reallocated or readjusted.

That point of view assumes implicitly that unlimited budget authority exists to spend out of an earmarked fund and that control has passed away from the Congress. That is not the case for the transportation trust funds. Each of them is subject to appropriation action, to obligation limits, which determines how much can be spent in any year out of the tax revenues.

In addition, this subcommittee has appropriated money from the general fund and, in some cases, most of the money for the various transportation systems. That decision, of course, is subject to all of the normal debate and policy control.

Consequently, I think the tradeoffs are, in fact, being made in these trust funds through the appropriations process as they are for other types of spending. The existence of the unexpended balances contributes to a perception that free money is available, and so pressure mounts to increase spending. But, in fact, with respect to Federal budgeting, these areas have been subject to the normal types of review.

DEMANDS ON TRANSPORTATION FUNDS

Senator LAUTENBERG. Well, with that in mind, if we project out our commitments and revenues associated with programs, do you think we have an infrastructure crisis on our hands that is either here now or on its way pretty quickly?

Mr. MONTGOMERY. I cannot see any compelling evidence for an infrastructure crisis overall. There are, clearly, public investments that would provide good economic returns and would contribute to economic growth. We need to be careful, however, in deciding what those investments should be.

A Congressional Budget Office study done last year on new directions in public investment suggests that investment in some areas yield very high economic returns—investment in urban highway construction, for example, to relieve congestion. In the case of the airways system, there are specific improvements that could be made to increase efficiency and productivity.

In contrast, in some areas of infrastructure, we have almost completed what needs to be done, and relatively little opportunity exists for efficient investments.

Senator LAUTENBERG. Such as what?

Mr. MONTGOMERY. The rural interstate highway system is new and in good condition. Overall, further investment would not appear to bring about additional large returns, though certain exceptions may exist.

Senator LAUTENBERG. Bridges in those systems?

Mr. MONTGOMERY. Bridges, in some cases, do need improvement, and some offer good returns.

Some of the lock and dam construction on relatively little used waterways, however, does not appear to offer much economic benefit. Evidence indicates that urban rail transit, with some exceptions, offers modest economic returns at best.

In short, in certain areas investment can pay off; in other areas it may not.

INFRASTRUCTURE SHORTFALL

Senator LAUTENBERG. Is this strictly an economic analysis, as far as you are concerned, Mr. Montgomery? Are we saying that direct attribution to expanded economic activity can be assigned to specific investments in infrastructure? Is that your message?

Because I see reports done by responsible people who say that we are running $40, $60 billion a year short. I ride on the highways. My tires are blown, my wheels are bending. I see bridges and brand new highways, relatively new, that are overused and bear excessive weight.

I see the aviation system. Last night it took me 3 hours to fly 250 miles in a jet. I was going to say, they ought to speed these airplanes up, but the fact is, the system could not handle the weather problem.

If you look at our rail systems, compare them to other major westernized societies, we are still in Toonerville trolley days in many cases.

And so I see, with my own eyes, unless I am the only one that sees it out there, a lot of infrastructure problems. People unable to move from cities to jobs as the changing structure of the employment market comes about, where jobs are no longer located just in a few major cities, but, rather, they are spread all over. And people from the cities, often without private transportation, automobiles, cannot get back and forth.

So I see these funds as woefully inadequate to do the job that we have to do. And I am trying to do a balancing act here by keeping what we have got glued together as we try to persuade people in this area, as well as across the country, that you have to invest in tomorrow at some time.

Mr. Rezendes, do you have any comment on our infrastructure?

Mr. REZENDES. I have a couple of observations.

We have done some work, particularly in the highway area, on needs assessment. There is a tremendous pent-up demand for additional highway money. In fact, I believe, if I remember the numbers correctly, that FHWA is estimating they will need over $300

billion through the year 2000 to maintain the current highway structure to 1985 standards.

But the interesting point, and the one we made in our report, is that half of those needs are already evident. These are current demands that have not been met. It is not only building new highways, although we will certainly need them in certain parts of the country—it is also maintaining the existing system.

Senator LAUTENBERG. Do you think it would help if all spending for transportation programs were channeled through the trust funds?

Mr. MONTGOMERY. Yes; I think it would clarify the situation. If all of the spending were to come through the trust funds, we could track what revenues were being raised from use of the system and we could compare that information directly with the total being spent on that system. Moreover, we would avoid the apparent growth of surpluses, which results from using general funds instead of trust fund receipts, as has occurred in the aviation system, as GAO pointed out.

Something similar might be accomplished if all activities were funded from general funding. In that case, we would just have one total, which was appropriated and expended, and one set of user taxes, which could be accounted for separately and reported without using a trust fund.

The trust fund offers a certain neatness when it directly compares receipts and expenditures. But that advantage is purely one of information and accounting, which I think could also be accomplished if we were to go totally to general funding.

DEDICATING REVENUES

Senator LAUTENBERG. Do you think that dedicated income user fees, effectively, could ever be sufficient to handle our transportation needs, either practically, from the standpoint of the cost of use of facilities, or from the burden on the individual who gets out there and has to pay a $10 toll on a bridge or on the fare on a train? I mean, is it possible, do you think, that we could match dedicated revenues to dedicated purposes, recognizing the need that the country has for transportation investment?

Mr. MONTGOMERY. Practically, I think it is possible. It is a political and a policy decision, however, as to who should pay and what the appropriate mix of general fund versus user fund spending would be.

Certainly some public purposes are served by the highways and by the aviation system, which provides services for the military as well as other aviation users.

Most of the highway system is already funded by user fees, by the revenues which go into the highway trust fund account. They may not precisely reflect the costs placed on the system: heavy trucks seem to pay less than the costs they place on the system. Overall, though, cost recovery is pretty close to being complete. But a system could be designed that more closely tailors the fees of particular classes of users to the costs they impose.

Senator LAUTENBERG. Yes; I think one of the things that we have to do is deal with the illusion that if you use it you pay for it. Because there are lots of people who get value from these things.

I mean, when you have a highway put into a given area and you have economic development, all the people who live in the neighborhood may have great benefits: new jobs, new investments, et cetera, appreciated property values, and never use the system.

So that is why I think that you have to have this mix of general and dedicated revenues. I think maybe we ought to be more specific in the purpose. I do not know that we should say you absolutely cannot have any operating funds without penalty out of the aviation trust fund. We ought to recognize that those fees include the entire system, whether it is capital or whether it is operating income.

Are there any untapped sources of revenues from users of the transportation systems that are available at the Federal level?

Mr. REZENDES. I am not aware of any.

Mr. MONTGOMERY. Part of it is a question of rates. Certainly, there is considerable discussion and proposals that gasoline taxes could be higher. General aviation pays a very small fraction of the benefits that it gets from the aviation system. There are relatively few taxes.

Senator LAUTENBERG. How about commercial passengers? Do they pay? Would you say that their cost share is fairly significant relative to the ticket price that they buy?

Mr. MONTGOMERY. Yes.

Mr. REZENDES. As we point out, private aviation is not paying its full share, as a result of the caps and the penalty provisions in the legislation. The general public is subsidizing commercial aviation to the tune of about $1 billion a year.

Then it becomes a policy question as to whether you believe commercial aviation should be required to pay an additional $1 billion a year.

Mr. MONTGOMERY. If I could disagree with my colleague on one point, we need to split commercial into airline transportation and general aviation, since the tax on passenger tickets just about pays for commercial airline use of the system.

Senator LAUTENBERG. It depends on which mode I am traveling at the moment, I would agree with you.

Last night, coming in at 11 at night, I came general aviation, because you could not get in here any other way, and amidst the storms, I thought we were paying way too much.

I am joined here by the ranking member of this subcommittee, Senator D'Amato, and with Senator Kasten. We welcome them both.

Senator D'Amato, what was that bell?

Senator D'AMATO. That is a live quorum call, Mr. Chairman.

Senator LAUTENBERG. OK.

Senator D'Amato.

Senator D'AMATO. Well, Mr. Chairman, if I might, I would ask that my statement be submitted for the record as if read in its entirety.

Senator LAUTENBERG. Without objection.

[The statement follows:]

STATEMENT OF SENATOR D'AMATO

Mr. Chairman, today's hearing will help to clarify many questions regarding the status of the transportation trust funds. Our witnesses from the General Accounting Office and the Congressional Budget Office will discuss these funds in detail.

As a member of the Appropriations Committee, I have heard much criticism that we are not spending the monies available in the trust funds. Many argue that the balances in two of the trust funds (aviation and highways) are being used to make the deficit appear smaller. They demand the "release" of these balances for current programs, or for new ones. Some argue that the trust funds should be taken off budget to enable more of their monies to be spent. Still others argue that user fees which support the trust funds should be lowered or abolished unless balances in the funds are spend.

We are not holding back on spending from the trust funds. For example, lengthy delays in our ambitious FAA program, the National Airspace System [NAS] plan, have prevented us from spending down aviation trust fund balances. Highway trust fund balances of today will be hard pressed to satisfy future infrastructure demands.

Special purpose trust funds were created to achieve better transportation systems, which includes mass transit, highways, aviation, and waterways. Better transportation is not achieved by emptying the bank today without planning for tomorrow's needs.

Mr. Chairman, it is important for transportation advocates to understand how the trust funds operate and why balances exist in them. I look forward to hearing from our GAO and CBO witnesses.

GENERAL FUND SUBSIDY

Senator D'AMATO. And if I might be permitted to pursue your line of questioning.

Let me ask, general revenues, how much do we get from the taxpayer for general revenues for airlines to support the FAA and all of our Government undertakings? Do you know?

Mr. REZENDES. Do you mean how much is coming out of general operating funds?

Senator D'AMATO. Yes; general funds.

Mr. REZENDES. We estimate about $1 billion a year.

Senator D'AMATO. $1 billion?

Mr. REZENDES. Yes, sir.

Senator D'AMATO. All right. So there is $1 billion subsidy, in essence, to aviation?

Mr. REZENDES. Yes, sir; to general aviation. The public sector's allocable share is roughly 15 percent of FAA's budget.

Senator D'AMATO. Have you made any study as it relates to what it would take to make up that billion, as it relates to user fees, what kind of an increase? Right now isn't there an 8-percent tax basically?

Mr. REZENDES. Yes.

Senator D'AMATO. And what does that 8 percent generate?

Mr. MONTGOMERY. On a rough order of magnitude, that 8 percent generates about half of FAA's expenditures. So if we were to double the passenger ticket tax, we would collect something like $3 billion, as a rough guess. But we have to be careful because general aviation—as I was pointing out just before you came in—accounts for more than one-fourth of FAA's expenditures, and it contributes virtually nothing through specific taxes.

Mr. REZENDES. There is a question as to whether general aviation could afford to pay its allocable share.

Senator D'AMATO. And then the military is 15 percent?

Mr. REZENDES. Yes, sir; military and other Government flying together are about 15 percent.

Senator LAUTENBERG. General aviation makes its contribution like anyone else. The fuel fees and landing fees, which are not really terribly significant.

Mr. REZENDES. That is right.

Senator D'AMATO. Well, I think it is an area we should look at. I am certainly not going to offer any off-the-cuff thoughts as to how we attempt to see to it, but I certainly think it is important that we see to it that the burden is fairly shared. And if we can reduce the outlay from the general coffers, that $1 billion certainly could be applied in some other areas as well.

I think it is something worthwhile pursuing, and I commend the chairman for holding this hearing. And time certainly limits us going into this any further.

Thank you, Mr. Chairman. Thank you.

USE OF GAS TAX REVENUES

Senator LAUTENBERG. Senator Grassley.

Senator GRASSLEY. Mr. Chairman, I, too, do not have either questions to ask or questions to submit for answers in writing, but I do think it is very appropriate at a meeting like this for me to take the opportunity to state my opposition to increasing the gas tax for purposes of deficit reduction and not for other purposes that the gas tax is normally used for.

Because I think it is a simple fact of life that if we increase the gas tax, that that money is going to be used, not to reduce the deficit, but it is going to take the pressure off of reform on the expenditure side of the ledger unless we make reform on the expenditure side of the ledger, it does not matter how high we increase any tax, gas tax or any other tax, we are not going to really get the deficit under control.

And from the standpoint of, if the gas tax is going to be increased, it ought to be increased for the traditional purpose of increasing the gas tax, and that is the infrastructure needs of our society and our economy. And obviously that means for highway, bridge, and airport needs.

So along the line of this very important issue, Mr. Chairman, I thank you for holding this hearing. And even though I was not here for all of it, I am going to be very careful about reading the record.

Senator LAUTENBERG. I thank you, Senator Grassley.

I think somebody pointed out here, because of the nature of this subcommittee's responsibility and because there is always a finger pointed at how much there is in these trust funds, aviation, highway, et cetera, that contributes toward masking the severity of the deficit problem.

Nevertheless, I think it is fair to say that both parties here, GAO and CBO, did point out that, based on the needs and revenue forecasts, these surpluses are at best temporary. We are going to be looking, not at surpluses, but deficits in the near future. And as we squeeze general revenues away from these infrastructure needs, we put ourselves further in the hole.

And I could not agree with you more that, if we are ever going to have increased user fees, they ought to go to the purpose for which they are designated.

Senator GRASSLEY. Or else they should not be raised.

Senator LAUTENBERG. Or else they should not be raised. I buy that.

Senator GRASSLEY. I am glad we agree.

Senator LAUTENBERG. We agree on lots of things, Senator Grassley.

What I would like to do, if you can stay available, we have got a call to the floor here that I have to obey. And if you could stand by or be available at about 12, say, an hour from now, 11:45, that would be helpful.

With that, we will recess the hearing.

Thank you.

[A brief recess was taken.]

INFRASTRUCTURE NEEDS

Senator BYRD [presiding]. The subcommittee will come to order.

Gentlemen, I regret that I missed hearing your statements, but I saw the prepared statements last evening, and so I am not entirely unaware of what was said.

I commend my esteemed colleague, Senator Lautenberg, for calling this hearing to take the testimonies of the Congressional Budget Office and the General Accounting Office on transportation trust funds.

There are a lot of myths about the transportation infrastructure trust funds. And I think that this hearing should provide a very timely airing of some of those misconceptions.

For example, there is much discussion about the aviation and highway trust funds, and whether balances truly exist. The demands on these funds are already great, and I think it is important to know, as the Environment and Public Works Committee will begin at some point in the not too distant future to consider a new highway authorization bill, as to whether the highway trust fund is financially able to handle new responsibilities.

Nationally, our transportation infrastructure system is aging and deteriorating. Transportation facilities in urban areas are heavily congested, and the congestion can be expected to worsen.

Rural roads are in poor condition, and government agencies have inadequate funds to repave and improve them. Some 42 percent of the Nation's bridges are classified as structurally deficient or functionally obsolete.

New highways are needed to link rural areas to commercial centers and to provide new beltways and bypasses in suburban or urban areas.

For example, in West Virginia, our bridges are in need of extensive help. One-third were constructed before 1920. Over 25 percent are either closed to traffic or posted at a load rating less than the bridge design capacity. Almost 30 percent have an average daily traffic of 100 vehicles or less.

Current cost estimates to rehabilitate and replace West Virginia's old, unsafe, and deficient bridges are in excess of $1.7 billion.

West Virginia has 38,000 miles of inventoried highways, but only 10,000 miles qualify to be on the Federal aid system.

West Virginia is struggling with these needs. It is doing the best it can to meet those needs.

West Virginia State highway user taxes are significantly higher than the national average. National and State highway user taxes per capita are $126, whereas West Virginia's are $195. This is almost 55 percent higher than the national average.

It is clear that West Virginia cannot deal with a deteriorating highway infrastructure system alone. West Virginians are willing, they are trying. They need a continuation of the Federal role and an increase in Federal spending for highways and bridges, otherwise they will continue to be the first to suffer when economic downturns occur, and they will be the last to recover in good times.

HIGHWAY TRUST FUND

The cash balance which was on hand in the highway account at the end of fiscal year 1988 is estimated to be about $9 billion. Your report, however, states that these funds are not surplus, but that they are needed to pay commitments which were outstanding as of the end of fiscal year 1988.

What did those commitments total at that time? I ask my questions of the representatives of the General Accounting Office.

Mr. REZENDES. At that time, sir, they were about $31 billion, which is about $22 billion more than the current trust fund balance.

Senator BYRD. How did we get in the position of owing $31 billion and only having $9 billion to cover those debts?

Mr. REZENDES. Well, sir, it is the way the highway program is structured. Congress authorizes the money for projects, but because building highways and roads involves a long process of issuing contracts and having the construction actually begun, it can take anywhere from 2 to 3 years or longer for the bills to come in.

As a result, you can have outstanding commitments way beyond the current trust fund balance provided that there is adequate income coming in over the years to cover the outstanding commitments as they come due.

Senator BYRD. The report goes on to say that the highway account can support a higher level of program activity than is currently authorized. Why was the current authorization level set lower than receipts?

Mr. REZENDES. That is an interesting question. Basically, the highway trust fund is a deficit-neutral fund. Congress has set a limit of not spending more out of the fund than the fund takes in.

But I think there have been some misconceptions as to how the obligation ceiling has affected the trust fund balance. Many people believe that the obligation ceiling is the basic cause of the $9 billion balance.

We asked Federal Highway Administration officials to make some calculations for us to estimate the trust fund balance if there were no obligation ceiling. Interestingly, if there were no obligation ceiling, the fund balance still would have been $6.5 billion.

The question then is how did the $6 billion accumulate? It accumulated monthly in the early 1960's, when the administration began deferring highway spending.

In the late 1970's, the Congress then imposed an obligation ceiling, which captured the same money that was previously deferred, which was roughly around $6 billion. That balance has been carried forward from reauthorization to reauthorization. The current increase from $6 to $7 billion is largely due to the accrual of interest on the trust fund balance.

Senator BYRD. How much interest accumulates on an annual basis?

Mr. REZENDES. I believe it is about $1 billion, sir.

UNCOMMITTED BALANCE

Senator BYRD. Then as I understand your testimony, the current estimates projected there would be somewhere in the neighborhood of about $7.5 billion in uncommitted funds, which could be carried forward into the next reauthorization period?

Mr. REZENDES. That is correct, sir.

Senator BYRD. What is likely to happen to the uncommitted funds, the $7.5 billion, circa, when the Surface Transportation Act is reauthorized in fiscal year 1991? Will those funds likely be carried forward into the next authorization period as they were in 1987, when the last Surface Transportation Act was enacted?

Mr. REZENDES. If history is any indication, they probably will be just rolled over at each reauthorization.

Senator BYRD. But would those funds, then, be available for expenditure during the next authorization period?

Mr. REZENDES. Yes, definitely.

Senator BYRD. Is any of the $7.5 billion promised specifically, as far as you know, to any interest group or to any Member of Congress?

Mr. REZENDES. No; these funds would be unobligated at the end of this reauthorization period.

Senator BYRD. So the next authorization bill could support a higher level of authorization, as we see it now, by about $7.5 billion, minus some cushion to guard against faulty revenue estimates?

Mr. REZENDES. That is correct.

Senator BYRD. Plus the estimated amount of excise tax receipts and interest over the period of the next authorization bill?

Mr. REZENDES. That is correct, sir.

Senator BYRD. I thank you for those concise answers.

Let me summarize our discussion this way, and see if I am correct. You just told me that while there may not be extra money in the highway trust fund now, by the time the next highway bill is addressed, there will be extra money, which the Congress may choose to spend on worthy projects, such as the Appalachian Regional Commission Highway System?

Am I correct thus far?

Mr. REZENDES. Yes, sir.

Senator BYRD. I intend to pursue this topic with the authorizing committee at the appropriate time. It seems to me that these funds have been collected in the form of excise taxes. They should be available for expenditure in the Appalachian area, including West Virginia.

I think we should all caution ourselves that just because the funding has been provided to complete the interstate highway system, it does not mean that all new highway construction needs have been met.

Based on the clarity with which these issues have been presented today, I will be pushing hard for funding of these Appalachian regional corridors when the next authorization bill is being heard and considered.

So I thank you very much for your testimony.

Let me now ask some questions of the Congressional Budget Office. I shall quote one paragraph from your testimony.

> Looking only at the trust fund balances is misleading as an indicator of either the appropriate overall spending level on transportation or the mix of spending among transportation programs. If additional good spending opportunities are available for transportation programs, they can be decided on their own merits and not on available balances in the trust funds.
>
> For example, the large economic benefits gained from keeping highways in good condition suggest that increasing highway spending would be an attractive alternative regardless of the balance in the highway account.

Now, you have used the phrase, "good spending opportunities." How would the CBO define good spending opportunities? Would that include good, new highway construction as well as maintenance?

Mr. MONTGOMERY. It could. We would define good spending opportunities as those that meet program objectives. CBO does not make recommendations about where money should be spent.

In transportation, we generally interpret good projects to mean those that increase transportation efficiency or that lower transportation costs by more than they cost to implement. Such programs could include those that relieve congestion, reduce accident damage, provide savings in time, and those that provide more of a return than they cost.

These good projects could either be in construction and maintenance or might not involve much capital spending at all—for example, it is like converting commuter lanes to HOV lanes.

We have tried to apply these principles broadly to various kinds of infrastructure programs, and we find that taken in the aggregate highway rehabilitation provides very high economic returns. And those returns would accrue even if we were to spend more than we currently are spending on highways.

Urban highway construction to relieve the suburban and urban congestion that you mentioned provides relatively high returns. The same thing is true in other areas, such as modernizing air traffic control.

Certain investments, as a class, generally tend to provide less of a return. Rural highway construction is one of those because much of the rural highway system is relatively new. It has been complet-

ed fairly recently, and is in relatively good condition since it doesn't receive a lot of use.

On the other hand, roads maintained by counties do not receive Federal highway funding at this point, and they tend to offer substantial opportunities for improvement. Those feeder routes might do a great deal to relieve congestion and improve access.

Similarly, we have not looked specifically at substandard bridges, but they could also provide extremely good economic returns. The methodology for doing this is, I believe, standard and accepted in the industry. But it really takes a case-by-case approach to determine, when we get to the level of the Appalachian Regional Commission's highway system, just what returns new projects would bring.

So I certainly would not exclude this category. But within the category, there are many good projects that compete, and the issue—as I think you posed it at the end of your remarks was—how the competition, on balance, would turn out, and what the source of funds would be.

The final point I made in my testimony this morning was that increases in spending on highways above the baseline will mean increases in total Federal spending—in other words, an increase in the deficit if there is nothing to offset this spending, regardless of the balance in the highway trust fund. The spending increases must be paid for one way or the other.

Senator BYRD. If the current large returns for spending for highway maintenance continue, should Congress consider increased authorization levels in the new highway bill?

Mr. MONTGOMERY. Again, I am not in a position to make a recommendation about that. I can say, however, that in CBO's analysis we have seen that some highway programs could sustain investment of as much as up to twice what is currently being spent, before one reached projects that clearly were uneconomic.

COST BENEFIT OF HIGHWAY SPENDING

Senator BYRD. Let me see if I can summarize our discussion this way. Federal outlays for good projects, which I would define to include the completion of the Appalachian regional corridors, should be made, regardless of the trust fund balances. And they should be thought of as producing societal benefits, rather than just contributing to the deficit.

Do you feel at liberty to respond to that question? Is that right?

Mr. MONTGOMERY. I think I can respond at least to some parts of that. The trust fund balance has nothing to do with the economic merits of an individual project. The question is, who should be paying for the project? Should it be paid for specifically by the users of the highway system or by the general taxpayer?

In the case of the highway trust fund, as you mentioned, it has historically been fully funded through the various highway taxes.

In looking at the projects themselves, however, I think many of the budget choices you are facing have benefits as well as costs, even benefits that exceed their costs. The question is how large they are relative to other competing projects. How to strike that balance is an issue on which I cannot offer any further advice.

Senator BYRD. Would you explain the computations that the CBO used to develop your baseline projections for the period 1990 to 1994?

Mr. MONTGOMERY. Yes; I would be glad to, if you would give me a moment. We project outlays on the basis of the current level of appropriations. We inflate those appropriations at our projected inflation rate, and estimate the spend-out that would occur given the appropriation.

We do tax revenues a little less mechanically. They are based on CBO's economic forecast and current law. We assume full rates for the highway, aquatic resources, waterway and harbor maintenance funds, and project the level of economic activity that will take place.

We currently assume that rates for the aviation excise taxes will drop to half of their current levels because of the penalty trigger that is currently in the law.

Interest income on the cash balances also accrues, and that amount is based on various CBO interest rate projections.

Especially on the outlay side, this baseline is purely an arbitrary extension of current appropriation levels to give a basis for measuring whether something is up or down.

Senator BYRD. What percent of the total transportation infrastructure outlays is derived from the trust funds as compared to the general funds?

Mr. MONTGOMERY. About 75 percent.

Senator BYRD. Is it accurate to say that your estimate of outlays from the highway account of the highway trust fund could be increased by the amount of the uncommitted fund balance in the highway account, about $7.5 billion, without increasing receipts?

Mr. MONTGOMERY. The financial control rule within the highway trust fund, which my colleague from GAO mentioned, would allow that. Although it depends a bit on the timing, the figure would be between $5 and $7 billion between now and 1993, since some of that balance is going to be interest, which has not yet accrued.

So within the financial control rules for the highway trust fund, it could be done. That increase in spending would be an increase relative to the baseline. Therefore, it would increase the deficit relative to the baseline if it were done in isolation.

Senator BYRD. Is there any advantage to doing away with all trust funds and funding all transportation infrastructure spending from the general fund?

Mr. MONTGOMERY. Yes; the total amount of expenditures in each of the transportation areas would be considerably clearer. The change to the general fund would also remove what is, in some cases, the illusion that less is being paid by the users of those systems than they are receiving in benefits.

On the other hand, it would lose what might be a useful accounting device for tracking what we have taken in by way of earmarked receipts and what we have spent out of those receipts.

CAPITAL SPENDING VERSUS OPERATING SPENDING

Senator BYRD. Would the CBO agree that increases in capital outlays might lead to long-term increases in productivity?

Mr. MONTGOMERY. Yes.

Senator BYRD. Would the General Accounting Office representatives agree?

Mr. REZENDES. Yes; we totally agree with that. We believe that part of the problem with the system we have today is that the expenditures for capital improvements are competing, dollar for dollar, in the deficit with general operating expenses. We would like to see the budget restructured so we have a separate capital budget that would identify long-term capital needs.

Mr. MONTGOMERY. If I could continue along the same lines, CBO's position on capital budgeting is the opposite of the General Accounting Office's. We do not believe that a separate capital budget is appropriate for several reasons.

One of the reasons is that there are many kinds of spending that would not be classified as investment but that would improve productivity in the long run as well as growth in the economy. Research and development, as well as investment in education and human capital, are also investments that can improve productivity. As a result, there is a great deal of subjectivity in our even deciding what we would include in a capital budget, let alone the point that it would divert attention away from the Government's borrowing needs. This demand for funds is the primary source of impact on credit markets and one of the reasons why we worry about the current account deficit. While there are problems in how we measure this impact, the current account deficit in the unified budget gets it about right.

Senator BYRD. Who shall decide when doctors disagree? That is a rhetorical question; Alexander Pope thought of it first.

Mr. REZENDES. GAO has a study going on now that will address these same points and will clearly articulate all the issues.

Senator BYRD. Well, I thank you, gentlemen. I appreciate your responses to the questions. If I think of any more I may submit them.

I think the record has been improved by these questions and answers.

The subcommittee will stand in recess pending the call of the chair later today.

Again let me thank Senator Lautenberg, in his absence, for allowing me to proceed at this time; and thank you again, gentlemen.

And thank you very much.

[A brief recess was taken.]

EFFECTS OF PENALTY PROVISION

Senator LAUTENBERG [presiding]. I want to deal with the aviation trust fund.

In the budget justification OMB stated, "Uncommitted aviation trust fund balances exist because of the penalty provision contained in the 1982–1987 Authorization Acts." How do you feel about that? Do you agree with that?

Mr. MONTGOMERY. The statement is mostly correct. Under our revised baseline, the uncommitted balance is projected to be $6.8 billion. Of that amount, we would attribute $5.3 billion to the penalty clause; $3.8 billion of this $5.3 billion comes from extra general

fund payments for operations; and $1.5 billion from extra general fund interest payments.

It appears that the rest of it is probably the result of authorizations actually being less than the revenues in the fund.

Senator LAUTENBERG. They state further that because of the penalty, the share of FAA operations appropriations financed from the trust fund was $5.4 billion lower than authorized. Is that confirmed by you?

Mr. MONTGOMERY. I think that their number is including the effects, both of the cap on funding of operation and maintenance and the penalty provision. But the number that I cited, which is $5.3 billion, includes only the penalty portion plus interest. So CBO and OMB come out to about the same number, adding the interest and including the effect of the cap.

Senator LAUTENBERG. You said $5.3 billion plus interest; does that exceed the remainder of the uncommitted balance at the end of 1989?

Mr. MONTGOMERY. No; I do not think so. We had the uncommitted balance projected to be $6.8 billion at the end of fiscal year 1989.

I am sorry. I am referring to a different chart. It is actually about $1.5 billion less than the uncommitted balance.

Senator LAUTENBERG. Submit that answer for the record, please?

Mr. MONTGOMERY. Yes, sir.

[The information follows:]

The uncommitted balance in the Airport and Airway Trust Fund (trust fund) unexpended or cash balance at the end of fiscal year 1989, under CBO revised baseline projections, is projected to be $6.8 billion. Of that amount, $5.3 billion is attributable to the penalty clause; $3.8 billion in extra general fund payments for operations and $1.5 billion in extra general fund interest payments to the trust fund.

The amount "attributable" to the penalty clause is the amount by which the maximum amounts that could have been appropriated out of the trust fund for operation and maintenance of the airway system were reduced due to the penalty clause. CBO assumes for the purposes of this estimate that, in the absence of the penalty clause, the maximum amounts that could have been appropriated out of the trust fund for operation and maintenance of the airway system would have been appropriated.

The number used by OMB ($5.4 billion) includes the effect of both the cap and penalty provisions of law without any interest while the number I cited, $5.3 billion, only includes the penalty portion plus interest. Since various assumptions must be made in calculating the effects of both the cap and penalty, comparing the OMB and CBO numbers is a little like comparing apples and oranges. Nevertheless, the current uncommitted balance can largely be attributed to the effects of these provisions since 1983.

Senator LAUTENBERG. What would the balance be in the trust fund if we did not have that penalty provision?

Mr. MONTGOMERY. About $1.5 billion.

Senator LAUTENBERG. And you will confirm that, please?

Mr. MONTGOMERY. Yes.

Senator LAUTENBERG. What do you think of the penalty provision?

Mr. MONTGOMERY. It certainly has had the effect of increasing the size of the unexpended balance in the trust fund. Given the way that the appropriations process has worked, I am not sure it has had any real effect other than that. It has caused more funding for the FAA operations to come out of the general fund, and less to come out of the trust fund. But, of course, as we have been discuss-

ing all day, the effects of that on the budget deficit and on actual Government receipts and spending is nil. It is simply moving things from one account to another.

REASONS FOR BALANCES

Senator LAUTENBERG. I understand. But it obviously inhibits using that source of revenues and forcing us over to the other cash register drawer, to use the expression, to get out funding.

How did the trust funds accumulate their surpluses?

Mr. MONTGOMERY. The airports and airways trust fund accumulated it for two reasons. One of them is that it is a hybrid account. Consequently, it was possible to substitute the general funds for the funds that were coming out of the trust fund.

Moreover, there have been differences throughout the history of the program. When the trust fund was set up the Congress authorized using some of the funds collected from the aviation excise taxes for funding O&M. The administration came back in, if I remember right, in 1971–72, to propose spending substantially less than was authorized on capital investment and R&D, using the balance to fund operations and maintenance.

The Congress did not like that. Hence, they first prohibited funding O&M out of the trust fund, and then allowed some proportion of it. That has evolved into the current cap and penalty provisions. Basically, I would say it is the current cap and penalty provisions that are largely responsible for the surplus.

Senator LAUTENBERG. And this is a recent phenomenon? I mean, initially that was not the case, but as a result of the changes in the law and changes in the rules that penalized the fund for those moneys taken for O&M, it is really more recent?

Mr. MONTGOMERY. It is more recent than the Revenue Act of 1970.

Senator LAUTENBERG. When did the balances start to accumulate in the aviation trust fund, for instance?

Mr. MONTGOMERY. Let me ask Mark.

Do you know when they began.

Mr. DAYTON. They initially accrued small balances through the 1970's. But you are right; it is really in the 1980's that the large balances have accrued.

Senator LAUTENBERG. In both the aviation and the highway trust fund?

Mr. DAYTON. In the highway trust fund I believe the balances were accrued more in the 1970's, as GAO pointed out earlier.

Senator LAUTENBERG. Do the accumulated surpluses indicate that aviation users have been denied benefits from their payment of excise taxes?

Mr. MONTGOMERY. No; it certainly is a matter of public policy rather than economic analysis, per se, to decide what the appropriate mix of general funds versus user fees should be. But about half of the funding for aviation programs, which have benefited these users, has come from the general fund.

TRIGGER TAX PROVISION

Senator LAUTENBERG. So they were not hurt by it really. What may be hurt is the long-run picture.

In your baseline projections you assume tax rate reductions occurring on January 1, 1990. How much revenue would be forgone as a result of that reduction?

Mr. MONTGOMERY. Between 1990 and 1994, $10.3 billion would be forgone.

Senator LAUTENBERG. What is your opinion of the trigger tax provision?

Mr. MONTGOMERY. Current private-sector users do not now pay the full cost of the services provided to them by the FAA because of the contributions that come from the general fund. Reducing taxes on private-sector users is likely to result in less efficient use of the aviation system and even more of a subsidy from the general fund to the users of the aviation system. It will also clearly increase the deficit.

Senator LAUTENBERG. Thank you.

For GAO, you made the statement that if the aviation system users paid for all the costs occasioned by their use, the trust fund would be running a deficit of more than $1 billion a year. How did you get that figure?

Mr. REZENDES. That is based on work that CBO did recently, which concluded that 85 percent of FAA's costs are caused by use of the system by private operators; that would include commercial and general aviation operations. Public use, which is mostly military, is responsible for about 15 percent of FAA's total costs.

When you do the calculation, 75 percent of FAA's operating expenses would have come from the trust fund if users paid their full share. Right now they are only paying about 25 percent. So about half of FAA's operating costs are coming from the general fund.

And when you work those numbers out, it is roughly around $1 billion.

Senator LAUTENBERG. What was your recommendation? What proportion should come from where?

Mr. REZENDES. Seventy-five percent FAA's operating expenses should be covered by the trust fund.

Senator LAUTENBERG. Should be covered by dedicated revenues?

Mr. REZENDES. That is correct.

Senator LAUTENBERG. Not necessarily the trust fund per se?

Mr. REZENDES. That is right. If users were paying the full freight.

PENALTY PROVISION

Senator LAUTENBERG. What do you think of the penalty provision?

Mr. REZENDES. Let me make two points. First, GAO believes that a larger proportion of FAA's operating expenses should come from the trust fund. Obviously the penalty provision has reduced that proportion, and it has minimized the amount of operating expenses coming from the trust fund.

Second, looking at just the penalty provision's basic intent, which was to increase capital spending, our work on the NAS modernization efforts does not suggest that the penalty has increased capital

spending on the NAS although it could have been more than what it has been today.

In fact, we believe that FAA has probably been appropriated as much as they could prudently have spent.

Senator LAUTENBERG. Maybe more at times than they could spend.

Mr. REZENDES. Yes.

Senator LAUTENBERG. Seriously.

Mr. REZENDES. I am serious. Yes, I agree.

Senator LAUTENBERG. Because there is equipment sitting there, we discussed this, I know Mr. Li was there, things that are warehoused that are not installed and set to work in the system. And when this happens, it creates enormous pressure over here to reduce the fund. Instead of saying, well, look at what we have got, they want to talk about reducing the income flow. And as a consequence, the ultimate penalty is issued, maybe robbing us of the chance of doing things tomorrow.

What do you think of the trigger tax we have been discussing?

Mr. REZENDES. Again we are in total agreement with CBO; that there is a current subsidy now, and allowing the trigger tax to reduce revenues would only increase the subsidy.

Senator LAUTENBERG. Absolutely.

OUT-YEAR CAPITAL DEMANDS

Do you believe that FAA has effectively provided for or planned how to pay for the out-year costs on the NAS Plan?

Mr. REZENDES. No, we do not.

First, FAA has not completely captured all the costs that have been identified and communicated them to Congress so that Congress knows what the NAS modernization effort entails.

Second, FAA does not have a system for setting priorities or to allow for slippages in the schedules based on any given level of funding. As a result, they assume that all of their capital needs are going to be funded in full each year. We believe this is unrealistic.

They also do not have a system to set priorities to permit decisions on tradeoffs or to determine what implementations can be delayed.

Allen, do you want to add anything to that?

Mr. LI. I totally agree with that. I think it is basic that when you are planning something of this magnitude, you must plan for different scenarios.

I am sure, as you recognize, sir, having been in the ADP area, you do not go ahead and say, "I know this is what I need and therefore I am going to plan only for that particular case." You have to have certain targets that you think you might be able to reach, but you must also anticipate what impact lower levels of funding will have on your schedule. In other words, if I am going to get less money, how is that going to impact my schedule?

When we talked to DOT and FAA personnel, they told us that although they received less money than they thought they needed for fiscal year 1990, they could not tell us what the impact was on schedules. I believe that they received a $300 million cut in fiscal year 1990, yet when we ask them what was the impact on the

projects schedules in this yellow book, they could not give us an answer.

Mr. REZENDES. But, we are optimistic. Secretary Skinner has indicated a willingness and an eagerness to address those very points in his current reevaluation of the NAS Program.

Senator LAUTENBERG. We will be discussing that with him. And I, too, am guardedly optimistic that we are going to get a better planned approach to things.

MOVING TRUST FUNDS OFF BUDGET

Senator LAUTENBERG. Lots of plans are put out as the answer to speed up spending from the trust fund: revolving funds, removing procurement restrictions, funds off-budget. Do you see any of these ideas as solutions to the problem?

Mr. REZENDES. No; we can talk to each of those if you would like.

Senator LAUTENBERG. No; do not. If you say no to all of them, I am satisfied.

Mr. REZENDES. The only one we would say yes to is increasing FAA's O&M funding out of the trust fund. That would quickly eliminate the surplus.

Senator LAUTENBERG. Is it fair to say that moving the trust funds off-budget does not ensure quicker or more efficient spending?

Mr. REZENDES. We would say categorically no. We do not see how that could be.

Senator LAUTENBERG. OK.

You have expressed yourself on the off-budget idea.

Mr. REZENDES. Right.

FUNDING NEEDS OF THE NAS PLAN

Senator LAUTENBERG. The NAS plan. You mentioned that it is facing fairly current costs. Can you elaborate on the magnitude of those?

Mr. REZENDES. Yes; we certainly can. For example, for 1989, the NAS cost is estimated to be about $1.4 billion. For 1990, FAA has asked for a 41-percent increase, closer to $2 billion. Although they do not have out-estimates that are public, we have looked at some of their planning documents to learn what they will need to maintain the schedule that they have in their NAS plan.

For 1991, to maintain the same schedule, they would need over $4 billion. While that is the highest annual need over the next few years, we still see 1992 and 1993 needs in the $2.5 billion range.

This gets back to my and Allen's earlier point about the need for priorities. We do not see how they can realistically expect, in this type of budget climate, to expect $4 billion in 1991.

Senator LAUTENBERG. The CBO has provided estimates of the balances available in the trust funds. Using a baseline reference, with your extensive work on the NAS plan, could GAO make projections of the out-year balances based on the future funding needs of the NAS plan?

Mr. REZENDES. No, sir; we are not able to do that at this time.

Senator LAUTENBERG. OK.

APPROPRIATED LEVELS

Former Secretary Burnley often criticized Congress for not providing the funding requested for the NAS plan, yet this program has had annual deferrals of over $1 billion for the past 3 years. In your judgment, what would have happened had Congress provided the funding for the facilities and equipment accounts at the administrator's requested levels?

Mr. REZENDES. As I indicated earlier, I think GAO's position is that Congress appropriated as much money as FAA could prudently spend. We agree with you that there is a $1 billion——

Senator LAUTENBERG. We fed this duck as much as it could eat?

Mr. REZENDES. That is right.

Senator LAUTENBERG. If we fed it anymore it would wind up in the oven.

Mr. REZENDES. Our concern is, as we have seen with some of the equipment purchases that are being stored in warehouses waiting to be installed, if Congress has appropriated more money, we would see more equipment out in storage and not ready to be used.

But, we have an even more basic concern. We are concerned that FAA might go ahead and buy equipment before it was ready to be installed. We have seen repeatedly where FAA has gotten in trouble because they have not followed the basic management principle of fly before you buy.

We would like to see this equipment field-tested before they implement them coast to coast.

SUBMITTED QUESTIONS

Senator LAUTENBERG. Thank you very much, Mr. Montgomery, Mr. Rezendes, and your colleagues, Mr. Mulvey, Mr. Li, Mr. Dayton. As usual, you have been very helpful and forthright. I appreciate it.

We will have other questions that will be submitted to you from the subcommittee.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

CONGRESSIONAL BUDGET OFFICE

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

TRANSPORTATION TRUST FUNDS

SENATOR LAUTENBERG: Generally speaking, would you recommend trust fund financing for other areas of the budget?

ANSWER: Using trust funds to account for program receipts and expenditures entails both benefits and problems. Trust funds may make it easier to raise funds if taxpayers more clearly perceive the tie between taxes and particular types of spending. In addition, they may lead to greater funding stability.

Trust fund financing, however, may also:

- Make the budget less flexible, and thus limit the ability of the Congress to respond to its changing priorities;
- Hamper fiscal policy if a large portion of the budget is fixed;
- Result in inefficient levels of public services if outlays are determined by the amount of earmarked revenues available, because revenues may have little relation to efficient levels of output;
- Discourage decisionmakers from making explicit tradeoffs both between infrastructure and other spending and between different types of infrastructure spending; and
- Limit Congressional control by removing outlays from the usual appropriation and oversight process.

Many of the benefits and problems ascribed to trust funds, however, assume that programs funded by earmarked taxes have indefinite or permanent appropriations that allow all trust fund receipts to be spent without further action by the Congress. Trust fund spending can be controlled in much the same way as general fund spending, through annual appropriations and obligation limits. Thus, the potential problems that trust fund financing introduces to the budget process can be avoided, but the benefits may be lost as well. Given the misleading picture of federal spending that trust funds can create and that I addressed in my testimony, I believe that the Congress might want to be cautious about expanding their use.

SENATOR LAUTENBERG: Do you have alternative projections for this time period if the trigger tax were not in place and the penalty provision were not in place? If so, what are they?

ANSWER: The last two lines in Table 2 of my testimony show projected receipts for the Airport and Airway Trust Fund without the reduction in tax rates from the tax trigger. Projected outlays do not change. Tax revenues would be $10.3 billion higher, and interest transfers would increase by $2.2 billion. The unexpended and uncommitted balances in the fund would each increase by $12.4 billion by 1994 (as shown in Table 3).

If the tax rate reduction that is to occur in 1990 and the penalty provision were repealed in fiscal year 1989, and if the Administration's budget request for fiscal years 1990-1994 is fully funded, the unexpended or cash balance would increase from $12.9 billion at the end of fiscal year 1989 to $16.3 billion at the end of the five-year period, a jump of $3.4 billion. The uncommitted cash balance remains relatively steady over the period, increasing

slightly from $6.8 billion at the end of fiscal year 1989 to $6.9 billion at the end of fiscal year 1994.

SENATOR LAUTENBERG: Does the accumulated trust fund surplus suggest that federal spending for aviation infrastructure has been deficient?

ANSWER: The existence of an accumulated surplus does not necessarily indicate that federal investment in aviation infrastructure has been deficient. That determination can only be made by assessing the adequacy of the aviation system relative to the demands being placed on it, and the costs and benefits of additional investment in the system. The trust fund balances are not in themselves good indicators of the adequacy of past investment.

SENATOR LAUTENBERG: In your statement you state that, "If there are additional good spending opportunities available for transportation infrastructure, they can be decided on their own merits, and not on available balances in the trust funds."

Have you seen cases, or could you give examples of where increased spending from the trust funds was advocated, not on a public policy basis, but because a perceived surplus existed?

ANSWER: I believe that some public policy argument is generally made for most programs, but policies and programs are often advocated as though no opportunity costs were associated with them. Some recent proposals for revolving funds for airport construction are an example. The proposals would extend federal support for investment into airport landside facilities, and areas not currently eligible for federal spending and traditionally funded by airlines. If this funding were provided by increasing spending above the baseline, without offsetting changes in other programs or tax receipts, the deficit would increase even though the trust fund has an unexpended balance.

The contrast is clear in a story recently reported in the newspapers about the funding of new airport security devices. The airlines want to tap the unexpended balance in the trust fund to pay for these outlays, which are in a program area that has previously been financed by the airlines themselves. Secretary Skinner, however, correctly pointed out that tapping the trust fund would increase the deficit; instead, he advocated an increase in aviation excise taxes to pay for the equipment.

SENATOR LAUTENBERG: Do you believe that the current excise taxes in the aviation area approximate the costs of the transportation services provided?

ANSWER: No. The excise taxes do not recover cost, as CBO has shown in The Status of the Airport and Airway Trust Fund (December 1988). For 1989, the trust fund will cover only 52 percent of the costs, compared with the 85 percent estimated by the FAA. The excise taxes are not prices that allocate scarce resources. The excise taxes do not include charges for congestion, pollution, noise, etc. For example, passengers on planes using congested and uncongested portions of the airway system pay the same tax on similar fares.

SENATOR LAUTENBERG: You make the statement that current excise taxes could be changed to more closely approximate prices for the transportation services. Given the fact that taxes for the Highway

Trust Fund are collected for two years past the authorization date, do you believe that the excise taxes levied are in balance?

ANSWER: Highway Trust Fund taxes continue for two years beyond spending authorizations to ensure that revenue is available to pay for the construction program. Furthermore, highway costs occur in long cycles. After construction, highways tend to remain in good condition for most of their economic lives and then to deteriorate rapidly. Thus, a period of high construction costs is followed by a period of low costs for routine maintenance, and finally by a period of high rehabilitation costs. As a result, cost recovery over the life of the highway system covering both capital and maintenance costs could require high fees in times of major construction or reconstruction and lower fees at other times. Alternatively, relatively stable fees would contribute surpluses to be drawn down during periods of construction surges.

More important, however, current highway excise taxes reflect only approximately the costs that users impose (though they do recover most of the federal program costs). The damage to pavements by the largest trucks is as much as 16 times greater than the damage from smaller trucks; yet, the federal taxes on the largest trucks are only about six times as high. In December 1988, the Federal Highway Administration issued a study concluding that a national weight-distance tax for trucks would be both feasible and fairer than the current tax structure.

Urban highways impose significant costs that are not all reflected in construction program costs. The costs of noise mitigation are included through the construction of noise barriers along highways, but gas taxes do not capture the costs of congestion and pollution caused by auto travel in urban areas. Pricing systems such as tolls, parking fees and direct road pricing are increasingly being studied as means to reflect such costs. Road pricing would typically encourage different forms of travel (vanpools and carpools, greater use of public transportation, etc.) and thus make better use of existing infrastructure, as well as provide revenue for expansion.

SENATOR LAUTENBERG: As we near completion on construction of the interstate system major policy questions will be asked. Primarily, what is the federal role regarding highways?

ANSWER: The nation's highway system is moving from an era of construction to one of maintenance and rehabilitation. CBO's New Directions for the Nation's Public Works (September 1988) estimates much higher economic benefits from highway 4R (restoration, resurfacing, rehabilitation, and reconstruction) spending than from new construction. Generally, 4R spending would have to increase by about 15 percent a year to maintain highways in current condition. At this rate, the return on investment would be around 30 percent. Undertaking all economically beneficial 4R projects would entail a doubling of spending from current levels.

The CBO study considered different roles for federal government.

(1) Withdraw. The high economic benefits from rehabilitation projects may be sufficient to induce the states to expand investment without federal aid.

(2) Target aid to favored categories. Because of the wide disparities in economic benefits among different types of projects, a revised federal role could help target investment to the most beneficial projects.

SENATOR LAUTENBERG: Are there programs or areas where the federal role is clearly defined and/or are there programs that the federal government can more efficiently administer?

ANSWER: The federal government has a clear interest in ensuring that major interstate trade routes are developed and maintained. This would obviously include the interstate highway network (42,000 miles), but it could also include major portions of other main highways--the highway network for heavy trucks, for example, covers 187,000 miles of highways. Maintaining such a federal role may require redistributing highway revenues to states with sparse traffic, if a uniform national standard for the facilities is thought to be desirable.

SENATOR LAUTENBERG: Has CBO ever done an analysis of the price elasticity of gasoline? In other words, can the gas tax level be raised to a point where it is not regressive?

ANSWER:

Price Elasticity. Most studies show that the demand for gasoline responds to price changes but that the effects are fairly small. For example, a rough estimate is that a 10 percent price increase would lead to a reduction in demand in the range of 2 percent to 4 percent in the short run. Over a longer period, higher gas prices may lead to other adjustments that would decrease demand, such as the purchase of more fuel-efficient cars, or changes in residential patterns.

Regressivity. A CBO study in 1987 of the regressivity of gas taxes showed that the degree of regressivity depends on how one measures income. The Tax Analysis Division is currently undertaking a further study that looks at different measures and at some means of offsetting the regressive effects of excise taxes through income tax policy. The results of that study may be available in several months.

SENATOR LAUTENBERG: Do you believe that the structure of the Highway Trust Fund or increased spending from the Highway Trust Fund has or can "skew" spending decisions?

ANSWER: Current budgetary choices should reflect current opportunities. Trust funds, however, reduce the flexibility to allocate funds across programs in ways that are most cost effective and that reflect changing needs and priorities. In addition, the Highway Trust Fund supports capital improvements almost exclusively; its spending thus favors investment solutions to certain problems that may be more effectively or more cheaply solved by other means. Urban traffic congestion, for example, may be more effectively managed with a combination of HOV lanes, traffic engineering and greater reliance on public transportation than by constructing major new routes.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

SENATOR D'AMATO: Should there be restrictions on the use of trust funds?

ANSWER: Limiting trust fund spending to certain programs within a transportation sector may obscure the overall level of federal spending for that sector. As my testimony noted, trust fund accounting, thereby, may tend to skew the debate over appropriate levels and targets of federal spending.

On the other hand, taxes and fees supporting a trust fund may have been instituted for a specific purpose. In those cases, accounting for the tax revenue and spending separately may be appropriate.

SENATOR D'AMATO: What improvements could be made in the way transportation trust funds are structured to improve their usefulness?

ANSWER: All federal spending for each transportation mode could be channeled through its trust fund, including general fund transfers (as trust fund receipts) to fund programs currently financed by the general fund. In this way, total federal spending on the mode and the source of revenue--whether users or general taxpayers--would be clearer. Alternatively, the trust funds could be eliminated and all federal receipts and spending for transportation channeled through the general fund.

SENATOR D'AMATO: The FAA has identified the need for airports to be equipped with new devices to detect plastic explosives. This is likely to cost in excess of $150 million. Is it appropriate to use the aviation trust fund for this purpose?

ANSWER: In keeping with its mandate, CBO does not make program recommendations. Such expenditures could probably be authorized as a discretionary safety grant in the airport grants-in-aid program. The existence of the unexpended balance in the trust fund, however, does not mean that this new spending on security could be funded without increasing the deficit. Unless offsetting reductions in spending were made or new taxes collected, the deficit would increase by the amount of this new spending.

SENATOR D'AMATO: Total federal outlays for aviation programs far exceed aviation user fees that fund the aviation trust fund. That is because aviation programs are funded both by general revenues and monies from the trust fund. Over the past 5 years, what percentage of aviation spending has been from general revenues and what percentage has been from the trust fund?

ANSWER: From 1984 to 1988, the general fund financed 48 percent of Federal Aviation Administration expenditures, or $11.1 billion of the total $23 billion in this period. The remainder came from the trust fund.

QUESTIONS SUBMITTED BY SENATOR DOMENICI

SENATOR DOMENICI: How much will this drop in aviation tax collections increase the deficit in FY 1990? How much over the next five years?

ANSWER: CBO's baseline assumes that the tax rate reduction occurs; thus, there will be no change relative to the baseline. The tax revenue loss in 1990 would be about $1 billion. Over the 1990-1994 period, the tax loss is an estimated $10.3 billion.

SENATOR DOMENICI: Since 1982, Aviation authorization bills have also included penalty provisions that prevented trust fund appropriations from going towards operating expenses. The penalty was triggered when appropriations did not match authorized levels for FAA capital programs. How much of the current Aviation trust fund balance is due to these authorizing penalty provisions?

ANSWER: The penalty provision accounts for an estimated $5.3 billion of the uncommitted balance of $6.8 billion at the end of 1989.

SENATOR DOMENICI: Do aviation users fully pay for the costs they impose on the FAA? If the costs of the aviation system were fully paid for by the users, what would be the trust fund balance?

ANSWER: No. Private-sector users of the aviation system do not fully pay for the costs they impose on the aviation system. CBO's recent study, The Status of the Airport and Airway Trust Fund (December 1988), estimated what the current balances in the trust fund would be if private-sector users had been required to pay their full share of the FAA's costs since the start of the trust fund. The result would have been large, negative unexpended and uncommitted balances. If private-sector users were required to pay their full share beginning with this fiscal year, the unexpended balance would be nearly halved by 1994, and the uncommitted balance would be -$2 billion. That is, there would be unfunded authorizations rather than an accumulated surplus.

Senator DOMENICI: I think it is important that the point is made during this hearing today that tapping existing transportation trust fund balances is not without cost or some negative impacts. I believe the GAO witness testifies that, and I quote: Because the congressional budget process sets limits on budget authority and outlays by budget program, increased spending out of the transportation trust funds would increase the pressure to cut spending elsewhere in order to reduce the deficit.

Likewise, taking the transportation trust funds off budget, or exempting them from the Gramm-Rudman-Hollings Act, would also shift the burden of deficit reduction to other domestic discretionary programs.

Mr. Montgomery, for the information of the subcommittee could CBO please provide two tables for the record?

The first table has already been provided by CBO for the budget summit discussions. It is an illustrative sequester of $27 billion under the Gramm-Rudman-Hollings Act including the transportation trust funds.

The second table I would ask CBO to prepare is this same illustrative sequester table showing the sequester effects if the transportation trust funds were exempted.

[The information follows:]

ILLUSTRATIVE $27 BILLION SEQUESTRATION: FISCAL YEAR 1990
(Outlay reductions, in billions of dollars)

Function	Transportation Trust Funds Not Exempt a/	Transportation Trust Funds Exempt b/	Increase (+) Decrease (-)
05 NATIONAL DEFENSE	13.55	13.55	0.00
15 INTERNATIONAL AFFAIRS	0.97	1.00	0.03
25 GENERAL SCIENCE, SPACE, AND TECHNOLOGY	0.79	0.82	0.03
27 ENERGY	0.38	0.40	0.01
30 NATURAL RESOURCES AND ENVIRONMENT	1.22	1.27	0.04
35 AGRICULTURE	0.82	0.85	0.03
37 COMMERCE AND HOUSING CREDIT	0.45	0.47	0.02
40 TRANSPORTATION	1.03	0.69	-0.34
45 COMMUNITY AND REGIONAL DEVELOPMENT	0.17	0.18	0.01
50 EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES	1.13	1.16	0.04
55 HEALTH	0.72	0.74	0.02
57 MEDICARE	2.01	2.02	0.01
60 INCOME SECURITY	0.76	0.78	0.03
65 SOCIAL SECURITY	0.16	0.17	0.01
70 VETERANS' BENEFITS AND SERVICES	0.42	0.43	0.01
75 ADMINISTRATION OF JUSTICE	0.84	0.87	0.03
80 GENERAL GOVERNMENT	0.93	0.97	0.03
90 NET INTEREST	1.18	1.18	0.00
95 UNDISTRIBUTED OFFSETTING RECEIPTS	0.00	0.00	0.00
** TOTAL OF ALL FUNCTIONS	27.5	27.5	0.0

a. Assumes across-the-board reduction in budget resources of 11.3 percent for defense and 9.7 percent for nondefense programs.

b. Assumes across-the-board reduction in budget resources of 11.3 percent for defense and 10.0 percent for nondefense programs.

GENERAL ACCOUNTING OFFICE

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

AIRPORT AND AIRWAY TRUST FUND QUESTIONS

SENATOR LAUTENBERG: What would happen to the trust fund surplus if all of FAA's operations and maintenance costs (O&M), except that occasioned by military and civil government use, were funded from it and the Facilities and Equipment program (F&E) were brought up to schedule?

ANSWER: If the trust fund covered 85 percent of FAA's budget (CBO's recent estimate of the private sector's share based on FAA's 1985 cost allocation study), the F&E program were brought up to date by funding prior deferrals, and FAA's workforce were increased sufficiently to install and operate the new systems, we estimate that the trust fund surplus would be drawn down within two years.

SENATOR LAUTENBERG: To make use of the trust fund balance, AOCI has suggested creating a revolving loan fund. Has GAO looked into this concept? What would be the budget impact from creating such a fund? Is there widespread support in the aviation community for a revolving loan fund?

ANSWER: We have examined the AOCI proposal. The revolving loan fund would be established with seed capital of $4.5 billion carved out of the Airport and Airway Trust Fund and would provide at least $1 billion annually in loans to airports.

A key feature of the AOCI proposal is that while the loan fund would be created "on-budget" within the trust fund, it would gradually be converted to an "off-budget" fund outside the congressional budget and appropriations processes as airports repaid the loans into a separate off-budget account. As the account was replenished, funds could be loaned out again to finance additional airport projects.

The fund would not have an immediate impact on the federal budget, because the initial capitalization would be an intrabudgetary transfer. However, as the monies are loaned out, the deficit will increase. We are also concerned that creating off-budget entities to carry out governmental functions avoids the discipline of the budget process.

With respect to support for the AOCI proposal, we found that while the aviation community is united in the desire to increase trust fund spending, there was substantial opposition to the specifics of AOCI's proposal. Some felt that it emphasized airport development to the exclusion of other needs such as safety. Other groups believed that only large airports would benefit.

SENATOR LAUTENBERG: How does GAO's recommendation to restructure the budget to distinguish the trust funds from general fund activities differ from taking the trust funds off-budget or at least exempting them from Gramm-Rudman-Hollings sequestering? Don't they accomplish the same thing--forcing the Congress and the President to deal with the parts of the budget that are causing the deficit?

ANSWER: The principal difference is that budget restructuring preserves the unified budget and keeps transportation trust fund spending under congressional budget review procedures. However, by distinguishing between operating expenses and capital investments for general, trust, and enterprise funds, decisionmakers have a clearer picture as to where the problems lie and the true nature of the deficit. The Congress can then choose which programs to cut or expand without prematurely exempting whole areas from consideration.

A restructured budget would also make it easier for the Congress to determine how much debt should be incurred to finance capital investments, like airways and highways, and how much debt is needed to cover operating expenses. Budget restructuring would also reduce the current bias in the budget against capital projects. The Congress could establish separate deficit reduction targets to reflect the appropriate balance between spending for operations and spending for capital investment.

SENATOR LAUTENBERG: You mention funding more of FAA's O&M expenses through the trust fund and reducing the current taxpayer subsidy to private users, but the airlines claim they already pay their share. How do you reconcile these statements?

ANSWER: The FAA estimates that commercial and general aviation users are responsible for about 85 percent of FAA's spending for aviation programs and that the public sector is responsible for the remaining. If the Trust Fund is viewed as a capital-only account, aviation-related excise tax revenues have been more than sufficient to cover all FAA capital spending. However, if the trust fund is supposed to be a user pays system, excise tax revenues have not covered all the costs associated with providing the aviation system. In addition, some aviation system users do not pay as large a portion of the costs as their use occasions. Most cost allocation assessments find that general aviation fuel taxes do not fully cover the cost of general aviation use. We believe that users, as a group, should pay the system's cost. However, we have no recommendation regarding cross-subsidies between different groups of users.

SENATOR LAUTENBERG: Under the current tax structure, are user charges distributed equitably among the various classes of user vehicles?

ANSWER: According to highway cost allocation studies undertaken by the Federal Highway Administration, passenger cars and light trucks pay their share, but heavy trucks do not.

SENATOR LAUTENBERG: You made the statement that the existing trust fund balances are needed to meet existing or imminent commitments. Is that true in both the highway and aviation trust funds.?

ANSWER: While outstanding commitments exceed the current balance in the Highway Trust Fund by $22 billion, this situation is acceptable under a reimbursable system. Further, expected revenues through fiscal year 1993 plus the balance are estimated to exceed outstanding commitments by over $7 billion. With the Aviation Trust Fund the $13 billion balance exceeds current commitments by $6.8 billion. However, as NAS Plan projects finally enter the implementation stage, demands on the "surplus" will increase.

SENATOR LAUTENBERG: What are the imminent commitments in each?

ANSWER: Imminent commitments are difficult to forecast. However, to get the aviation system modernization program back on track may require $4.5 billion in fiscal year 1991 and more than $2.5 billion annually for the following two years. In addition, there is the "need" to allow the trust fund to cover a greater share of FAA operating costs. Current restrictions on spending for operations amount to a subsidy to private users of more than $1 billion each year. For the Highway Trust Fund, the existing commitments are ones that are imminent.

SENATOR LAUTENBERG: Much has been said of the cash balances in each of these trust funds. Are these balances surpluses?

ANSWER: The Highway Trust Fund balance is not a surplus simply because commitments exceed the current balance. However, when anticipated future revenues are added to the balance, then this amount is estimated to exceed outstanding commitments. The Highway Trust Fund could support additional commitments, but any additional expenditures will have an adverse impact on the budget deficit.

The Aviation Trust Fund balance exceeds current commitments by more than $6 billion. As the bills to modernize the air traffic control system come in, the balance will be drawn down, but some excess will remain. Only by covering a larger share of FAA operating costs with Airport and Airways Trust Fund revenues, will the balance be eliminated.

SENATOR LAUTENBERG: How and when did these balances build up?

ANSWER: The balance in the highway account began to accumulate in the late 1960's largely as a result

of budget deferrals which delayed the obligation of funds. In the case of the Aviation Trust Fund, the balance has accumulated almost since the fund was established. The fund accumulated the surplus partly because new systems took longer to bring on line than FAA first envisioned. However, there would be no balance if the trust fund had been used to cover allocable operating costs.

SENATOR LAUTENBERG: What has been the recent record of the balance build up in these funds? That is, in the last five years, has the spending (outlays) matched the income in each of these funds?

ANSWER: Over the past few years the balance in the Highway Trust Fund has remained relatively stable. Given that interest is paid on the fund balance, outlays generally have exceeded receipts from user fees. In the case of the Aviation Trust Fund, revenues have exceeded outlays, but if there had been no penalty provisions since 1983, the balance would be almost $7 billion lower.

SENATOR LAUTENBERG: Has GAO ever done an analysis of who benefits from spending these funds?

ANSWER: No. The beneficiaries are the users, but there is some evidence from CBO and DOT studies that not all users pay for all the resources used to meet their needs. GAO has not addressed this issue, however.

SENATOR LAUTENBERG: Because appropriations have been less than the authorized levels in fiscal years 1988 and 1989, a trigger tax provision will go into effect in January 1990 which basically lowers aviation user tax rates, resulting in about $1 billion less coming into the trust fund. If Congress has provided the funding, would this have influenced the trust fund balances?

ANSWER: No. The FAA has spent its appropriation about as fast as prudent. If anything, we are concerned that FAA is not following OMB procurement guidance on the acquisition of complex systems and may be rushing some systems into implementation.

SENATOR LAUTENBERG: Do you believe that the perceived "surplus" in the trust fund has distorted the way the funds are used?

ANSWER: To date the perceived surplus has not affected how the funds are used, but many recent proposals appear to be based on the existence of a surplus. Among these proposals are the creation of a revolving loan fund to finance airport development using the trust fund "surplus" as seed money, and the proposal to use trust fund money to pay for thermal neutron analysis (TNA) devices to enhance aviation security. Despite the aviation industry's contention that security is a public safety issue and not an

airline responsibility, the industry is supportive of using trust fund monies to finance TNA.

SENATOR LAUTENBERG: How soon might the Aviation Trust Fund balance be drawn down?

ANSWER: How fast the Aviation Trust Fund is drawn down depends on the purposes to which the monies are put. Assuming no reduction in income from the trigger tax and no further restriction on spending for operations due to the penalty clause, increased funding to achieve NAS modernization on schedule will increase capital spending out of the fund to almost $10 billion over the next 3 years. This will reduce the balance, but not eliminate it. Unless spending out of the fund is increased to include a larger share of FAA's operating and maintenance costs, some positive balance will persist.

SENATOR LAUTENBERG: Much confusion exists as to how these trust fund balances are used to balance the federal deficit. First, how is the deficit calculated? Second, do "balances" enter into deficit calculations? Third, have these trust funds had a positive or negative impact on deficit calculation?

ANSWER: The annual deficit is calculated by subtracting federal outlays from federal receipts. However, this single number masks important fiscal relationships. Under receipts, are included payments to the Social Security Trust Fund and other accounts that run large annual surpluses in anticipation of large drawdowns in the future. By comparison, the transportation trust fund surpluses are trivial. The annual trust fund surpluses have a major impact on the calculation of the annual federal deficit because they are used to offset the federal funds deficit, thereby making the total federal deficit smaller.

SENATOR LAUTENBERG: You state that over time, the aviation community has agreed to finance an ever larger portion of operations and maintenance. What does that mean?

ANSWER: Aviation industry officials told GAO that over the years the industry has agreed to support spending more for FAA operations in return for assurances that the FAA would spend trust fund monies for facilities and equipment at rates more in line with what the industry believes to be aviation's needs.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

SENATOR D'AMATO: The highway and aviation trust funds both have large unspent balances. Do you think that these balances are too large for the needs of the program? According to the needs of the programs, when will these balances be spent out?

ANSWER: In the case of the highway trust fund, the balance is far less than current commitments. Nevertheless, given projected income and expenditures, the fund could support a higher level of commitments. The aviation trust fund has a balance in excess of existing commitments. Even if spending were accelerated to put the NAS Plan back on schedule, the balance would not be eliminated. Neither balance is likely to be spent down under current policy. If, however, aviation trust fund monies were available to pay for such activities as operating and maintaining the air traffic control system, then the balances could be spent down.

SENATOR D'AMATO: According to CBO's figures, private aviation (commercial and general) accounts for 85 percent of the costs of FAA's programs. Public aviation (mainly military) accounts for about 15 percent. In 1988, almost one half of FAA's operations were paid by general taxpayers (not by the trust fund). Do you think that private aviation is paying its share for the costs of operating the aviation system? Is private aviation receiving a bonus in the form of general revenue support of the FAA?

ANSWER: GAO has not made an independent assessment of the cost responsibility of the various users of the system. However, most analyses that we are aware of find that general aviation pays far less than the cost occasioned by general aviation activity. IF this is so, general aviation is being subsidized by the general taxpayer. The Congress must decide whether such subsidy promotes the general interest.

QUESTIONS SUBMITTED BY SENATOR DOMENICI

SENATOR DOMENICI: Am I correct that proposals, such as the House bill that would tap into the Aviation Trust Fund to purchase and install aviation security equipment, such as the thermal neutron analysis device, for an estimated $270 million, may exacerbate the funding problems likely to be experienced by the aviation trust fund in the future?

ANSWER: Whether it would exacerbate funding problems depends largely on the scenario that one assumes. If the trust fund is used to cover a larger share of FAA's operating expenses, as we think it should, then such increased spending will exacerbate the problem. On the other hand, if the general fund continues to subsidize FAA operations costs, then spending for TNA systems can be accommodated. However, such spending will, like any government spending, exacerbate the overall deficit.

SENATOR DOMENICI: In your opinion how should such new initiatives be funded? Through the trust

fund mechanism with some adjustments made to cover the anticipated costs? Through direct appropriations? What options might the Congress consider to meet the aviation costs you identify, or to finance new initiatives in aviation security?

ANSWER: We believe that to the extent feasible, the "user pays" principle has merit and should be followed. However, when there are substantial public benefits in addition to those gained by the system's users, some public support might be desirable. GAO has not studied this issue in detail and, therefore, is not prepared to recommend any particular course of action at this time.

CONCLUSION OF HEARING

Senator LAUTENBERG. With that, we adjourn this hearing. The subcommittee will recess and reconvene at the call of the Chair.

Thank you very much.

[Whereupon, at 1:20 p.m. Thursday, May 11, the hearing was concluded and the subcommittee was recessed to reconvene at the call of the Chair.]

MATERIAL SUBMITTED SUBSEQUENT TO CONCLUSION OF HEARING

[CLERK'S NOTE: The following letter and statements were submitted by witnesses subsequent to the hearing for inclusion in the record.

LETTER FROM JOHN L. BAKER, PRESIDENT, AIRCRAFT OWNERS AND PILOTS ASSOCIATION

May 22, 1989

The Honorable Frank R. Lautenberg, Chairman
Appropriations Subcommittee on
Transportation and Related Agencies
156 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your defense of the general aviation contribution to the Airport and Airway Trust Fund at your recent subcommittee hearing on transportation trust funds. David Montgomery of the Congressional Budget Office asserted at the hearing that general aviation contributes "virtually nothing" to Trust Fund revenues, completely ignoring that our members pay the 12 cents-per-gallon avgas and 14 cents-per-gallon jet fuel taxes. Again, we appreciate your bringing these fuel taxes to his attention in such a pointed fashion.

Although your hearing was helpful in keeping the Trust Fund debate alive, we continue to disagree with respect to specific purposes of the Trust Fund and the implications of its large cash surplus. The AOPA position is outlined in greater detail in testimony recently submitted to your subcommittee discussing the FY90 FAA budget request. I commend that to you. However, I feel I must stress again our view that the Airport and Airway Trust Fund is intended to be a capital account. And surely there's no doubt that infrastructure needs exist!

Talk of a general taxpayer "subsidy" to pay for part of FAA operations is based on the misconception that there is no public benefit associated with our air transportation system. All of our citizens are "users" of the system, whether or not they actually board an aircraft. In his prepared statement, Victor Rezendes of the General Accounting Office admits that Trust Fund outlays and debts incurred do indeed ". . . produce future streams of benefits to the government and to society-at-large." That is equally true of general tax revenues invested in the system.

I appreciate your time and the opportunity to comment. Please call on us whenever we can be of help.

Sincerely,

John L. Baker
President

STATEMENT OF DR. T. PETER RUANE, PRESIDENT AND CEO, AMERICAN ROAD AND TRANSPORTATION BUILDERS ASSOCIATION

Introduction

On behalf of the American Road and Transportation Builders Association, I am pleased to submit testimony for the record on the status and treatment of the transportation trust funds and the needed appropriations for our nation's surface transportation and aviation programs.

ARTBA, based in Washington, D.C., has provided representation for the transportation construction industry since 1902. Our more than 4,000 members nationwide come from both the public and private sectors. We represent not only construction firms, but also state and local transportation officials, manufacturers, engineering and design firms, material suppliers and educators in the fields of transportation planning and civil engineering.

ARTBA believes that the financial decisions made by Congress in the transportation area have a direct impact on our nation's safety, mobility, economy and defense preparedness. We are also concerned with ensuring that the monies paid by American motorists, air passengers and waterway users are spent in a timely manner for their intended purpose: making necessary improvements to our transportation network.

Transportation Trust Funds

Revenues paid into the transportation trust funds -- derived from user fees or taxes contributed by system users -- finance the highway, aviation and waterways programs. While the latter two systems also receive some general

fund monies, the federal-aid highway program is essentially self-supporting and does not contribute to the federal deficit.

ARTBA believes that these user-financed transportation trust funds, therefore, should be removed from the Unified Federal Budget and the resulting constraints on funding authorizations. We further advocate that the interest accrued on the balances in these accounts should also be earmarked for transportation programs.

By taking the transportation funding mechanisms off-budget, these vital programs would also be exempt from possible sequestrations under the Gramm-Rudman-Hollings balanced budget law.

As of March 31, 1989 -- the midpoint of fiscal year 1989 -- the Highway Trust Fund, Airport/Airway Trust Fund and the Inland Waterways Trust Fund had a combined unexpended balance of $28.96 billion.

According to the Congressional Budget Office, these combined balances could reach $36.2 billion by the end of 1994 if the aviation tax "trigger" takes effect as scheduled, or $48.6 billion if the tax trigger is repealed.

Regarding this aviation tax trigger, ARTBA believes that its implementation will have a negative effect on our nation's ability to continue airport capacity expansion and meet growing safety requirements. We therefore encourage Congress to appropriate the necessary funds to avoid triggering this aviation tax rate cut.

Less than $300 million would be needed in additional appropriations for fiscal year 1989 to reach the 85 percent level of aviation authorizations required to avoid the tax trigger. This action would result in about $1 billion in additional federal revenue for fiscal year 1990 that would be available for aviation programs. This seems to be a most cost-effective endeavor.

While ARTBA recognizes that keeping the transportation trust funds -- with their ..izable unexpended balances -- within the federal budget helps reduce the federal deficit "on paper," we believe that this approach breaks faith with the American people on two levels.

It masks the true magnitude of the budget crisis and permits Congress to avoid making the hard spending choices that are necessary to deal effectively with this situation. Congress may be tempted to further cut expenditures from these funds, so that the balances will rise higher and so make the deficit appear even smaller. It also keeps these user-fees from being spent for critical transportation system needs, as is their dedicated purpose.

Removing the transportation trust funds from the Unified Federal Budget will allow the programs to operate more efficiently. In the case of the Highway/Transit and Airport/Airways programs, program authorizations are enacted on a multi-year basis. However, because of the budget situation, each year the actual funding level of these programs is left in limbo -- occasionally until after the fiscal year has begun -- due to delays in the appropriations process.

The end result is that state and local agencies, which are dependent on matching federal funds to begin planned transportation improvement projects, cannot adequately plan their construction schedules or begin letting work in a

timely manner. When needed work is delayed because of this situation, it has a negative effect on public safety. The resultant delay also increases overall project costs because of rising inflation, material costs and labor rates.

In summary, ARTBA encourages this Subcommittee to support legislation that would remove the transportation trust funds from the Unified Federal Budget. At a time when our infrastructure needs are rapidly outpacing federal, state and local expenditures there is no rational reason for keeping nearly $29 billion in user fees from being invested in America's transportation systems.

FY 1990 Transportation Appropriations

Because no discussion of the transportation trust fund situation can be logically conducted without a perspective on current funding levels and capital investment needs, ARTBA would respectfully like to comment on the pending fiscal year 1990 appropriations for the U.S. Department of Transportation. We will restrict our comments to the federal-aid highway, mass transit and aviation programs.

The existing needs of our surface transportation system are well documented. According to the Federal Highway Administration, some 1.3 million miles of paved roads (62 percent) need rehabilitation and 240,000 bridges (41 percent) are currently classified as "structurally deficient" or "functionally obsolete." The fatal bridge collapses of recent years and the closure of such vital structures as New York's Williamsburg Bridge give silent testimony to the drastic effects of delays in tending to infrastructure repairs.

The situation is growing worse. Before too long, many parts of the U.S. Interstate System will also be critically in need of repair and rehabilitation

as its roadways age and reach the end of their design-life. Already, nearly 11 percent of Interstate highways have pavement classified as "poor" by the Federal Highway Administration.

Bringing Interstate highways alone up to standard could require an investment of up to $116.4 billion over the next 15 years. Meeting America's existing and accruing bridge needs could cost an additional $93 billion through the year 2005.

These structures are America's lifeline to mobility, safety and economic security. The U.S. highway system carries nearly 75 percent of the value of all goods and services produced in this country. More than 90 percent of all travel occurs over the highway system -- approximately 3 trillion miles of travel per year.

Despite the inarguable value of our surface transportation system, spending on highways and bridges has declined from 1.2 percent of the Gross National Product in 1960 to 0.6 percent in 1984. Without question, we are under-investing in our highway and bridge network.

The proposed funding levels suggested by the recently adopted budget resolution indicate that surface transportation programs will be frozen at fiscal year 1989 levels. This is well below the level enacted by Congress in the *Surface Transportation and Uniform Relocation Assistance Act of 1987*.

That Act calls for spending $13.88 billion for fiscal year 1990, but the Administration has proposed an obligation limitation for fiscal year 1990 highway programs of only $11.3 billion -- including some $285 million in funds for demonstration projects. Under the Federal Highway Administration budget,

this would further reduce the ceiling to $11.025 billion -- representing a 9.2 percent reduction in highway funding for fiscal year 1990. This program level is simply unacceptable.

ARTBA urges this Subcommittee to fully fund the highway program at the $13.88 billion level authorized in the 1987 Act. The documented balance in the Highway Trust Fund and continued record influx of revenues and accruing interest indicate that a program of this level -- or up to $14.5 billion per year -- can easily be supported by the highway users of this nation.

Of no less importance to the overall transportation of people and products are America's aviation and mass transit systems. We recommend that the Airport Improvement Program be funded at the highest level possible.

As the General Accounting Office testified before this Subcommittee on May 11, 1989, "For almost the entire history of this (Airport/Airway) trust fund, receipts have exceeded trust fund spending. The current $13 billion balance exceeds outstanding commitments by almost $7 billion, and, in that sense, the fund has a surplus."

Funding for the Urban Mass Transportation program should also be increased over the level proposed in the Administration's budget. In addition to using the revenue generated by the one-cent federal gasoline tax that is dedicated to transit, the needs dictate that additional general fund monies be allocated.

We recommend that for fiscal year 1990, the Urban Mass Transit capital improvement program be funded at $1 billion -- the amount generated by the gasoline excise fee for this purpose. Additionally, a drawdown on the existing $5.7 billion balance in the mass transit account of the Highway Trust Fund is

necessary to meet the mobility needs of our nation's heavily congested urban and suburban areas.

Thank you for the opportunity to present the views of the American Road and Transportation Builders Association. Please contact ARTBA should this Subcommittee have any additional questions about our testimony.

STATEMENT OF ROBERT L. TURNER, PRESIDENT, ASSOCIATED BUILDERS AND CONTRACTORS

Associated Builders and Contractors (ABC) appreciates the opportunity to submit a statement to the Appropriations Subcommittee on Transportation regarding Transportation Trust Funds and their impact on the federal budget.

ABC is the fastest-growing construction association: over 18,000 contractors, subcontractors, material suppliers and associated firms with more than one million employees. ABC members build merit shop -- the most efficient construction technique in America. This practice -- of awarding construction contracts to the lowest responsible bidder, regardless of labor affiliation, through open and competitive bidding -- assures taxpayers and consumers the most value for their construction dollar.

Admittedly, ABC members benefit from increased federal investment in infrastructure construction; however, as highway users, we contribute to the Trust Fund and support the user-financed, pay-as-you-go, Federal-aid highway program. Since 1956, motor fuels taxes have been the primary user fee collected to finance the Highway Trust Fund and this financing method has provided a dependable revenue source for the construction of our nation's Interstate system. Highway users, such as ABC, pay the gas tax with the knowledge that their money will be returned to them in the form of highway and bridge construction and repair.

The strong linkage between the gas tax, as a dedicated highway user fee, and the return on investment to highway users is integral to the success of our Highway and Interstate program. This linkage must be maintained. It preserves the integrity of the user-financed Federal-aid Highway program.

Furthermore, in our view, trust fund financing is an important tool in controlling federal expenditures. With a user-financed, dedicated revenue source, highway users' demand for improved services cannot outreach their willingness to pay for them. As reported by the General Accounting Office:

> Total income (revenue and interest) over the life of the Highway Account of the Trust Fund is estimated at $277.7 billion. This amount compares with total program authorizations of $270.3 billion. Consequently, the difference between income and commitments through the current life of the Trust Fund is now estimated at $7.4 billion.

The National Council on Public Works Improvement, created by the Public Works Improvement Act of 1984 to assess the state of America's infrastructure, dedicated two years studying the condition of our infrastructure. The Council's widely publicized final report entitled, Fragile Foundations, concluded "the quality of America's infrastructure is barely adequate to fulfill current requirements and insufficient to meet the demands of future economic growth and development." The Council recommended that a national commitment, shared by all levels of government and private sector, move to increase capitol spending on America's public works by as much as 100% above current levels.

As highway users, we are paying for the services we rely on and value. The "user pays" principle insures that we put our money -- in motor fuels taxes -- where our mouth is. However, with a surplus accumulating in the Highway Trust Fund, Congress is not maintaining its end of the commitment: to allocate and spend trust fund revenues on highway and bridge construction and repair.

The Highway Trust Fund cannot be equated to a personal checking account before the "monthly rent comes due." To be analogous this reference would have to include not just one month's rent, but rent due through the entire term of the lease... and even the richest checking account is unlikely to meet that test.

However, the highway account balance surpasses the built in overdraft protection required by the 1982 Byrd amendment (total unpaid commitments against the highway account at the end of any fiscal year cannot exceed end-of-year balance plus projected revenues for next two fiscal years). With balances in excess of the Byrd requirement by at least $6 billion, the highway account is in no way overextended or without integrity. However, if these surpluses continue to be held, as a means of masking the federal budget deficit, the support of highway users will erode as will the condition of our transportation infrastructure.

ABC agrees that a responsible cushion of uncommitted funds should be maintained in case of revenue disruption or shortfalls; however, that does not justify the current estimated surplus of $7 billion dollars in the highway account -- and again, that is after all outstanding obligations are paid!

ABC supports the assertion that highway improvements should not be financed on the sole basis that the money is in the trust fund, but we also do not see the wisdom in allowing 40 percent of our bridges to be deficient or why 60 percent of our highways remain in need of rehabilitation. The argument that addressing these urgent needs would further compromise our federal balance of payments is only defensible after breaking the linkage between user fee and dedicated purpose. These trust funds should instead be taken off budget, therefore, insuring that apples cannot be bought with money collected to pay for oranges.

As for the merit of these dedicated purposes, the Committee is well aware that capital improvements in our transportation infrastructure pay-off. These are productive investments. As documented by Federal Reserve Bank of Chicago Senior Economist David Aschauer, there is a correlation between infrastructure investment and the nation's economy. His research found that private sector productivity rose and fell in cycles corresponding to rise and falls in investment in highways, bridges and other public works.

The condition of our infrastructure is directly related to our productivity as a nation and our competitiveness in the global market -- the benefits of infrastructure investment extend well beyond the interests and lives of the highway users which pay for them.

ABC firmly believes that the revenues collected through user fees in transportation trust funds should be spent and allocated solely for their intended purposes. We must protect and expand America's infrastructure investment because it is vital to the prosperity of our nation, as well as our individual safety and quality of life.

ABC supports deficit reduction as the number one priority facing Congress and the nation today. Deficit reduction can and should be achieved through spending restraints in a manner that is equitable to all Americans -- not by diverting trust fund monies from the purposes for which they are dedicated and collected.

STATEMENT OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

The Associated General Contractors of America (AGC) represents more than 32,500 firms, including 8,000 of America's leading general contracting construction firms. These contractors perform more than 80 percent of America's contract construction of commercial buildings, highways, industrial, and municipal-utility facilities, and are responsible for the employment of more than 3,500,000 individuals.

AGC appreciates the opportunity to express its views on the important topic of transportation trust funds.

HIGHWAY TRUST FUND

The trust fund concept has long been recognized as a reliable and stable financing mechanism for infrastructure investment. As early as the 1930s, several states had developed dedicated, user-fee mechanisms to support highway improvement programs in their states. By 1956, the year the Interstate Highway Program was initiated, some 25 states had instituted trust funds or similar dedicated funding sources for their highway programs. Using these successes as a model, the Interstate Highway Program was developed around the user-fee trust fund concept. That financing mechanism has served this country well for nearly 35 years, supporting the nation's highway program and the development of the world's greatest public works project -- the Interstate Highway System.

Several key features of the trust fund are largely responsible for its success. First it is user-fee financed -- the nation's highway transportation system is paid for only by the user. The more you use the system the more you pay. The public support for the highway program has remained strong primarily because the traveling public receives a direct benefit from the money it pays in user fees.

Another key aspect of the trust fund is that it provides a stable and reliable financing mechanism on which a successful, major capital investment program depends. A typical highway project may take 7 to 10 years from the planning stage to completion. Proper planning for the transportation needs of the future requires that a dependable source of revenue will be available to finance the needed improvements when they are ready for construction. The multi-year authorization process and contract authority are critical ingredients to permit for this long term planning and assure the highway program's success. AGC views the trust fund and the highway program in the context of an ongoing capital investment program which should be subject to different rules than the current budget allows.

From the budgetary standpoint, perhaps the most critical feature of the trust fund is the Byrd Amendment which assures its solvency. The amendment provides that on an annual basis, there is a determination of the outstanding obligations and current balance and expected receipts of the trust fund. This information is used to guarantee that future commitments against the trust fund can be honored.

AVIATION TRUST FUND

In much the same manner as the highway program, the Aviation Trust Fund has served the needs of the nation's airline passengers in providing a user-fee based financing mechanism to support airport and aviation capital improvements. The Aviation Trust Fund, supported through an 8 percent ticket tax, assures that airline passengers are paying their share of the cost to support the nation's aviation system.

The Aviation Trust Fund is different from the Highway Trust Fund, however, in that there is no contract authority and annual appropriations are required to establish spending limits.

REMOVAL OF THE TRANSPORTATION TRUST FUNDS FROM THE UNIFIED BUDGET

Recognizing that the country has an ongoing, critical need to adequately invest in transportation infrastructure, AGC believes the manner in which the transportation trust funds are treated in the budget process needs to be modified. As mentioned previously, the highway program is founded on the basis of multi-year authorizations for highway investment. The process recognizes that when a highway project is approved and let for contract, it may be 3 or more years before the final reimbursement for the project will be made to a state and the construction contractor paid in full for the work. For this reason, the user fees paid into the Highway Trust Fund are kept in force for 2 years beyond the final authorization in any highway legislation. This provides the necessary financing for the project at the time the bills need to be paid. Without other artificial spending restraints, such as obligation ceilings, the trust fund can support the highway program with a relatively low cash balance of approximately $2 to $3 billion.

The budget problems which have faced this country since the late 1960s, however, have had a detrimental effect on the ability of the federal government to let the trust fund work in the manner in which it was intended. Since 1969, artificial spending restraints have caused the Highway Trust Fund balance to grow dramatically to a current balance of over $15 billion, including the mass transit account. Including the Aviation Trust Fund, the combined transportation trust fund balances exceed $25 billion. Yet, vital transportation needs in this country are not being met.

With the Interstate Highway Construction Program coming to an end, a number of groups are focusing on the future transportation needs of this country. At the same time, the Congressionally authorized National Council on Public Works Improvement has examined the condition of the nation's infrastructure. In its final report entitled "Fragile Foundations" the National Council concluded that the nation's infrastructure is inadequate to meet current demands and accommodate future growth. With regard to a key element of the nation's infrastructure – the highway system – the Council graded the system a "C+" noting that many roads and bridges require major work.

The most in-depth analysis of highway needs was performed in 1988 by the American Association of State Highway and Transportation Officials (AASHTO). In their report entitled "The Bottom Line – A Summary of the Surface Transportation Investment Requirements 1988-2020", AASHTO identified annual highway capital investment needs of up to $58.5 billion between now and the year 2020. This compares with highway capital spending in 1985 of $27.3 billion.

With respect to aviation, congestion and delay are the watch words of air travel in the 1980s. Since the early 1970s, air travel has more than doubled in this country. During this period of unprecedented growth, no new airports have been constructed in this country; the last major airport project was constructed over 15 years ago in the Dallas – Ft. Worth area.

Clearly, the nation must begin to address its transportation infrastructure needs before the crisis grows to unmanageable proportions. A first step in addressing this issue would be to expend the trust fund balances for their intended purposes. Since the trust fund receipts can be used for no other purpose than transportation, bankrolling these trust funds is not only a breach of faith with the transportation users of this country, but is merely postponing work that should be done now to prevent more costly repairs later.

A longer term solution to this issue is to take the trust funds out of the unified budget. These programs have not contributed to the deficit. The large cash balances are the very proof of that. The user-fee financed transportation programs of this country should be funded at the level their trust funds can support. The receipts should not be loaned to other programs while vital transportation needs of this country go unmet.

SUMMARY

In summary, AGC strongly supports the continuation of the transportation trust funds as the best approach to financing highway and airport improvements. AGC also believes that to restore the trust in the transportation trust funds and keep faith with the users of the nation's highway and aviation system who pay "user fees" to support those programs, the Highway and Aviation Trust Funds should be removed from the unified budget and exempted from the Gramm-Rudman-Hollings law.

STATEMENT OF THE HIGHWAY USERS FEDERATION

Mr. Chairman and Members of the Subcommittee, the Highway Users Federation (HUF) appreciates this opportunity to offer comments on the status of the nation's transportation trust funds. While your hearing dealt with the broad topic of all transportation trust funds, we will limit our comments to the highway and mass transit accounts of the Highway Trust Fund, with which we are most familiar.

The Highway Users Federation is a national coalition of businesses, industries and associations working to improve the safety and efficiency of America's highway transportation system. Our membership consists of more than 400 companies and associations representing 27 industrial and commercial categories, 63 state and local conferences, and 2,000 individual members. Our members in turn represent over 30 million commercial and private users of the nation's highway system.

As a group, HUF's members comprise the largest collective group of highway users and the major suppliers of highway transportation services and products. By their highway usage, this group also represents the primary source of income for the Highway Trust Fund. In other words, our members are the principal payers of state and federal highway user fees. They are generally supportive of user-financed highway improvement programs, but want highway taxpayers to get what they are paying for.

As we look ahead to the DOT budget for FY 1990, we cannot assure our members that they are receiving full value from their federal taxes. This is most disturbing to us, as we're sure it is to this Committee as well, because the demands for improved highway service are increasing in every area of the country.

The Administration's budget for FY 1990 proposed to fund federal-aid highways within an obligation limitation of $11.310 billion. When exempted programs are included, total highway obligations would amount to $12.365 billion. This is nearly $1-1/2 billion below 1990 budget authority enacted in the 1987 Surface Transportation and Uniform Relocation Assistance Act (STURAA). It represents a $990 million decrease below the level of 1989. This is called by the Administration a "deficit-neutral" budget policy. Remaining budget obligation authority would not be obligated until the federal deficit is brought under control.

Mr. Chairman, highway users share the national concern over our long-standing federal budget deficit. We are willing to share any reasonable burdens as the deficit is brought down. In fact, between 1986 and 1989, the federal-aid highway program was reduced by some $1.2 billion due to budgetary concerns. If the entire federal budget had kept pace, there would today be a national budget surplus of $74.9 billion. Clearly, the burden has not been shared by all.

We believe that the even more dramatic reduction in highway obligations proposed for 1990 will lead to clearly undesirable impacts on the U. S. economy. Even further, the assertion that the $12.365 billion level is "deficit-neutral" cannot be supported.

The Administration's definition of deficit neutrality holds total highway program obligations equal to total highway tax revenues for the full authorization period of the STURAA, FY 1987-1991. However, as the Committee is aware, the actual federal deficit is calculated on a single year basis. In the case of the Highway Trust Fund, this means comparing total revenue into the account with outlays, not with obligations. The actual relation of program obligations to outlays is a complex multi-year fiscal stream.

Further, a full accounting of Highway Trust Fund fiscal solvency must consider not only user tax proceeds, but also the interest income derived from investing the Trust Fund balance. Ever since the Trust Fund was established in 1956, interest income has been credited to, and forms a part of, Trust Fund revenue (Internal Revenue Code, Section 9602(b), 70 Stat. 374, Section 209(e)(4)).

The DOT FY 1990 budget estimates 1990 revenues into the highway account of the Trust Fund, including interest, to be $14.323 billion, while outlays are estimated to be $13.515 billion. Using our analysis, if the Committee desired true deficit neutrality within the highway account, total obligations could be increased to $14.3 billion. In fact, due to the normal lag in processing bills for payment, obligations could exceed that figure by as much as a billion more.

Some degree of uncertainty seems to surround the question of the Highway Trust Fund. Is its unused balance growing, or were revenues fully utilized during the Reagan years? You have heard various opinions on this issue. To us the answer is clear. The Trust Fund balance on January 31, 1981, was $10.4 billion. Treasury Department figures for February 28, 1989, show a total Trust Fund balance of nearly $15.0 billion. (Because

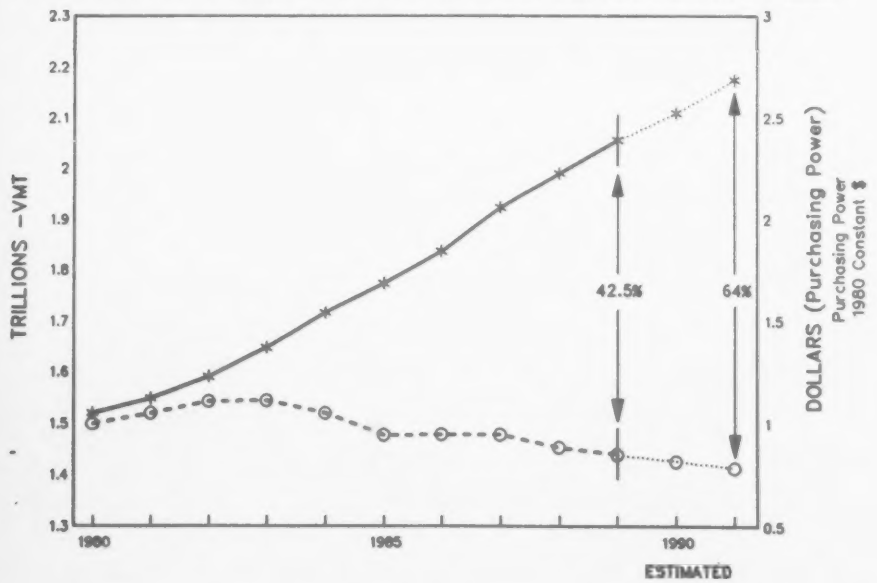
our members pay highway user taxes into both the Highway and Transit Accounts, we use the full Trust Fund balance in the analysis.) This to us is not "deficit neutral."

Further, the Administration's long-term forecast of Trust Fund revenues projects the end-of-year balance (both accounts considered) to grow to $26.5 billion by FY 1994. Frankly, this is an affront to the many millions of taxpayers who contribute these revenues in anticipation of better and safer driving conditions. This erroneous definition of neutrality and resulting growing balance of unused funds distresses our members, who, again, are primarily the people who provide the highway user taxes to both Trust Fund Accounts.

We ask for your consideration of this modest increase in highway program level in full recognition that even $14.3 billion in 1990 obligations will add to the nation's unmet highway transportation backlog. In short, we are not keeping up with the increasing demand for highway service.

During the past 12 months highway travel has increased by about 4 percent, topping 2 trillion vehicle-miles for the first time in history. At the present rate of increase, though, by the year 2000 the highway network will be asked to handle 3 trillion vehicle-miles! Several fast-growing areas, in the home states of some Subcommittee members, will see traffic double by the turn of the century.

HIGHWAY PROGRAM FUNDING SHORTFALL



The Subcommittee is aware of the growing gap between increased highway demand and the greatly reduced buying power of a stable or declining federal-aid program. Figure 1 shows a 1989 situation which will get worse. Since 1980, travel has gone up by 31 percent, and constant dollars are 11.5 percent lower. Today's 42.5 percent shortfall is likely to grow to 64 percent by FY 1991, the end of the STURRA period.

As a result, we are experiencing poorer highway service. Traffic fatalities for 1988 will probably reach 47,000, an increase of nearly 4,000 in the past 5 years. FHWA recently submitted the 10th biennial report to Congress on the status of the nation's roads and bridges. Because of changes in definitions, it is difficult to make direct comparisons with earlier reports, but it appears to us that deficient bridges are still over 40 percent of the total, and over one-third of major route pavements need or will soon need major improvement. Further, the massive increase in documented levels of urban and suburban highway congestion in FHWA's report validate the commuting experiences which most of us tolerate daily.

We see cause and effect. The country is not investing what's needed on its roads, and conditions are worse as a result. As the Congressional Budget Office noted in their testimony before the Subcommittee, "...the large economic benefits gained from keeping highways in good condition suggests that increasing highway spending would be an attractive alternative regardless of the balance in the highway account."

You may be familiar with the early progress of Transportation 2020, an unprecedented voluntary effort, led by the American Association of State Highway and Transportation Officials and HUF, to look ahead to the year 2020, and identify the surface transportation policies the national economy will need during this period. During the past 12 months, this project has made significant further progress.

The series of 65 public forums held all around the U.S. was completed in mid-1988. The final forum report, Beyond Gridlock, was delivered to all members of Congress in June of last year. A copy is attached for your information. Briefly, the public forums found urgent surface transportation issues in every state. Urban and suburban congestion is growing in all large cities, while rural residents worry about increasing isolation. Funding is short at all levels of government, and in all transportation modes.

Many people testified that costs of manufacturing and delivery were increasing, which is an obvious detriment to economic growth and interstate commerce.

Because the problems are so widespread and pervasive, it is clear that some level of federal attention to surface transportation will be needed, even after completion of the remaining gaps in the National System of Interstate and Defense Highways. The Transportation 2020 process has turned its attention to developing a consensus position on proposed future programs. Please find enclosed a recent HUFSAM paper on the status of program development for the Committee's information.

Mr. Chairman, this has been a brief report on how the highway user community views the present highway fiscal climate. As has been pointed out, we are worried and concerned. We urge the Committee to preserve the nation's immense and vital investment in highway transportation by providing the maximum funding possible from the Highway Trust Fund. It is essential that adequate funding be available to maintain the Federal-State partnership in highway transportation and safety until Congress has completed deliberations on the post-Interstate federal-aid highway program. We are fast approaching the 21st century, and unless we act now, there will be no way the present highway system will be able to provide the quality and service of performance this nation will demand or expect.

Mr. Chairman, we greatly appreciate this opportunity to comment on such an important topic. The Federation staff would like to offer you our full cooperation, please let us know if we can be of any further assistance.

[CLERK'S NOTE: A copy of the publication ''Beyond Gridlock'' will be kept in the subcommittee files and is available for review.]

STATEMENT OF ROSS CAPON, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF RAILROAD PASSENGERS

Thank you for this opportunity to present the views of our non-profit, consumer-oriented organization.

Through the mode-specific trust fund system, the federal government effectively forces states to solve virtually all problems with more roads and aviation facilities--even where rail could do a better job. Federal funding covers substantial portions of road and aviation project costs, but federal aid for rail transit is very limited relative to the needs and is available at less attractive matching ratios, and there is virtually no federal aid for intercity rail passenger or freight projects.

As you know, states are reluctant to forego federal aid, yet the choice of the energy-efficient rail mode usually requires just that sacrifice because of the lack of federal rail money.

We believe the mode-specific transportation trust funds should be replaced with a consolidated transportation trust fund whose revenues could be spent on whichever mode can do the job best rather than on whichever mode happened to collect the revenue. As a start, we think any increase in the federal gasoline tax should include 1 to 2 cents for Amtrak and state rail projects (freight and passenger) and 5 cents for mass transit.

Today, except for the transit highway penny, revenues are spent on the collecting modes even though road and air are the modes which are most environmentally damaging and energy wasteful, least helpful to those with lower incomes, and, in the case of highways, most dangerous. Moreover, gridlock threatens mobility on our road and air networks unless we make better use of rail lines to provide needed additional transport capacity.

On the environmental question, the World Resources Institute says carbon dioxide from our cars is equal to all Latin America's carbon-dioxide emissions from all sources. Auto vehicle-miles traveled (VMTs) are rising at about 3.5% a year; even if we get that down to 3%, VMTs will still increase by 63% by 2010. The Environmental Protection Agency projects that, after 1995, emissions reductions from replacing older, more polluting autos will cease and total mobile-source emissions of the 4 major urban pollutants will increase again for the first time in 20 years.

As a result of mode-specific trust-fund-dominated policies, U. S. urban areas have the world's highest per capita gasoline consumption rates--and our non-rail cities are the worst performers. Based on 1980 data for metro areas, per capita gasoline consumption in Toronto and London is 21% and 72% lower than in New York, while the consumption rate in highway-dependent Houston was 69% higher than in New York (54% higher than in Chicago). Similarly, trust funds have benefitted trucks at the expense of railroads even though the Oak Ridge National Laboratory found, based on 1984 data, that class I railroads were more than 3 times more energy-efficient than trucks.

In short, mode-specific trust funds stimulate investment in exactly the wrong mix of transportation modes. The absurdity of mode-specific trust funds was aptly summed up by Vukan R. Vuchic, Professor of Transportation Engineering at the University of Pennsylvania, in "The Auto Versus Transit Controversy: Toward a Rational Synthesis for Urban Transportation Policy" (Transportation Research-A, 18A, #2, 1984):

"The principle that motor vehicle taxes should be used for highway purposes only seems at first sight to have all the advantages of user taxation. It appears to be a logical and equitable method of financing. However, a more rigorous professional examination of it discovers a major flaw in its definition of users.

"This application of user charges principle is based on the assumption that automobile users in a state or in the country represent a special category of travelers, separate from those who use vehicles on rails, water, or even on the same highways, but are larger (bus). Thus, a person in Cincinnati driving to a neighborhood supermarket pays gasoline taxes which can be used for construction of a freeway in Montana, but they cannot be used to improve bus transit serving his very neighborhood.

"This flaw comes from the primitive consideration of transporation sectors through their mechanical and operational forms, rather than functional definition of transportation. An urban transportation system can be a system only if it encompasses all urban transportation, regardless of the physical form it takes. Following the basic principles of taxation, charges should be collected where possible and appropriate, and used for the modes or facilities which are most effective and desirable for the city.

"...Failure to treat urban transportation as a single function led not only to separate modal policies, but produced the policies which aggravated the imbalance between modes instead of stabilizing their relationship to achieve efficient multimodal systems."

Vuchic's logic is equally applicable to intercity travel and freight transportation. If I were to fly from Washington to New York, my ticket tax could build air facilities nationwide but not improve those Northeast Corridor rail facilities best able to relieve congestion at the airports I actually used.

The heaviest, most rail-competitive trucks pay only about 60% of their infrastructure costs, domestic waterway operators pay less than 20% of theirs, and private railroads pay their full infrastructure costs (while coping with high-cost federal laws which do not apply to their road and waterway competitors). The waterway subsidy is extraordinarily high and very damaging to railroads in those markets where water transport exists.

Mode-specific trust funds also foster the notion that users pay their full costs. In reality, highways get about $17 billion a year in non-user payments and commercial aviation gets about a $1 billion a year subsidy with traffic control operating costs paid from general revenues. Users of these modes don't pay the full costs of their facilities and they don't pay any of their environmental and energy impact costs.

The U. S. is lunging towards another gasoline crisis which will be far more serious than the ones in the 1970s because:

o domestic production is much lower,

o domestic demand is much higher and still rising (thanks largely to the all-powerful highway lobby and auto-oriented land-use planning), and

o a high proportion of industrial energy inefficiency was eliminated in the wake of the 1970s energy crises, so the next crisis will hit gasoline for automobiles harder and faster

If the U. S. is to gain credibility as a worldwide leader in the development of sane environmental policies, and if we are to protect our own people from the negative effects of future energy crises, we must move now to develop a truly balanced transportation system.

Growing public awareness of the environmental costs of overreliance on highways and underutilization of railroads is giving political leaders more room in which to maneuver. Two pieces of evidence: 17 urban and rural counties with 78% of California's population have voted to allow state gasoline taxes to be used for rail projects (approval margin for the 6 counties voting in November 1988 was 66%-34%); on May 19, USA Today published 10 responses to its May 17 telephone question for readers, "What is your biggest transportation problem?" There were five requests for more Amtrak/public transit service, one complaint that USA Today coverage neglects bicycle transportation, and not one specific request for more roads!

We must stop thinking in terms of "highway users," "airway users," etc., and think instead about "transportation users" (i.e., all citizens) and how best to serve them, taking into account all of their impacts, including energy and environmental.

Thousands of Americans drive cars on specific trips because public policy destroyed or didn't build logical rail lines. These people, including our members, are tired of seeing their gasoline taxes go mostly for roads and they want U. S. policy to catch up with reality--starting with a clean air law this year that has meaningful VMT-reduction requirements and continuing with development of the trust fund changes suggested on page one of this statement.

Thank you for considering our views.